

# Financial report

## CONSOLIDATED BALANCE SHEETS

| October 31  | 2004             | 2003*     |
|---|------------------|-----------|
| In thousands, except share data   |                  |           |
| <b>Assets</b>   |                  |           |
| Cash and cash equivalents   | \$ 63,369        | \$110,947 |
| Trade accounts receivable (less allowances of \$8,372 and \$6,089)  | 321,449          | 286,606   |
| Inventories   | 22,260           | 21,419    |
| Deferred income taxes   | 40,918           | 36,121    |
| Prepaid expenses and other current assets   | 38,092           | 44,037    |
| Total current assets  | <u>486,088</u>   | 499,130   |
| Investments and long-term receivables   | 7,359            | 11,459    |
| Property, plant and equipment (less accumulated depreciation of \$80,296 and \$74,754)  | 31,354           | 31,988    |
| Goodwill (less accumulated amortization of \$69,386)  | 227,447          | 188,809   |
| Other intangibles (less accumulated amortization of \$7,988 and \$4,845)  | 22,290           | 15,849    |
| Deferred income taxes   | 48,802           | 41,337    |
| Other assets  | 19,184           | 15,734    |
| Total assets  | <u>\$842,524</u> | \$804,306 |
| <b>Liabilities</b>  |                  |           |
| Trade accounts payable  | \$ 45,235        | \$ 38,143 |
| Income taxes payable  | 10,065           | 36,658    |
| Accrued liabilities:  |                  |           |
| Compensation  | 64,826           | 61,691    |
| Taxes—other than income   | 18,366           | 15,297    |
| Insurance claims  | 66,262           | 55,499    |
| Other   | 49,674           | 49,403    |
| Total current liabilities   | <u>254,428</u>   | 256,691   |
| Retirement plans  | 25,658           | 24,175    |
| Insurance claims  | 120,277          | 93,418    |
| Total liabilities   | <u>400,363</u>   | 374,284   |
| <b>Stockholders' equity</b>   |                  |           |
| Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued   | —                | —         |
| Common stock, \$0.01 par value; 100,000,000 shares authorized; 52,707,000 and 51,767,000 shares issued at October 31, 2004 and 2003, respectively | 527              | 518       |
| Additional paid-in capital  | 178,543          | 166,497   |
| Accumulated other comprehensive loss  | (108)            | (268)     |
| Retained earnings   | 328,258          | 317,261   |
| Cost of treasury stock (4,000,000 and 3,400,000 shares at October 31, 2004 and October 31, 2003, respectively)                                    | (65,059)         | (53,986)  |
| Total stockholders' equity  | <u>442,161</u>   | 430,022   |
| Total liabilities and stockholders' equity  | <u>\$842,524</u> | \$804,306 |

\*As restated

## CONSOLIDATED STATEMENTS OF INCOME (Condensed)

| Years ended October 31<br>In thousands, except per share data | 2004             | 2003*            | 2002*            |
|---|------------------|------------------|------------------|
| <b>Revenues</b>   |                  |                  |                  |
| Sales and other income  | \$2,416,223      | \$2,262,476      | \$2,068,058      |
| Gain on insurance claim                                       | —                | —                | 10,025           |
|   | <u>2,416,223</u> | <u>2,262,476</u> | <u>2,078,083</u> |
| <b>Expenses</b>   |                  |                  |                  |
| Operating expenses and cost of goods sold                     | 2,187,659        | 2,035,982        | 1,858,356        |
| Selling, general and administrative                           | 176,667          | 170,125          | 156,257          |
| Interest  | 1,016            | 758              | 1,052            |
| Intangible amortization                                       | 4,519            | 2,044            | 1,085            |
|   | <u>2,369,861</u> | <u>2,208,909</u> | <u>2,016,750</u> |
| Income from continuing operations before income taxes         | 46,362           | 53,567           | 61,333           |
| Income taxes  | 15,889           | 17,943           | 19,649           |
| Income from continuing operations                             | 30,473           | 35,624           | 41,684           |
| Income from discontinued operation, net of income taxes       | —                | 2,560            | 2,670            |
| Gain on sale of discontinued operation, net of income taxes   | —                | 52,736           | —                |
| <b>Net income</b>   | <u>\$ 30,473</u> | <u>\$ 90,920</u> | <u>\$ 44,354</u> |
| <b>Net income per common share — Diluted</b>                  |                  |                  |                  |
| Income from continuing operations                             | \$ 0.61          | \$ 0.71          | \$ 0.82          |
| Income from discontinued operation                            | —                | 0.05             | 0.05             |
| Gain on sale of discontinued operation                        | —                | 1.06             | —                |
|   | <u>\$ 0.61</u>   | <u>\$ 1.82</u>   | <u>\$ 0.87</u>   |

\*As restated

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Condensed)

| In thousands                     | Common Stock<br>Shares | Common Stock<br>Amount | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Additional<br>Paid-in Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total            |
|----------------------------------|------------------------|------------------------|--------------------------|--------------------------|-------------------------------|---|----------------------|------------------|
| <b>Balance November 1, 2001*</b> | 48,778                 | \$488                  | —                        | \$ —                     | \$130,998                     | \$(763)   | \$218,352            | \$349,075        |
| Net income*                      | —                      | —                      | —                        | —                        | —                             | —   | 44,354               | 44,354           |
| Foreign currency translation     | —                      | —                      | —                        | —                        | —                             | (26)  | —                    | (26)             |
| Dividends:                       |                        |                        |                          |                          |                               |   |                      |                  |
| Common stock                     | —                      | —                      | —                        | —                        | —                             | —   | (17,730)             | (17,730)         |
| Stock purchases                  | —                      | —                      | (1,400)                  | (23,632)                 | —                             | —   | —                    | (23,632)         |
| Stock issued                     | 1,619                  | 16                     | —                        | —                        | 20,137                        | —   | —                    | 20,153           |
| <b>Balance October 31, 2002*</b> | 50,397                 | \$504                  | (1,400)                  | \$(23,632)               | \$151,135                     | \$(789)   | \$244,976            | \$372,194        |
| Net income*                      | —                      | —                      | —                        | —                        | —                             | —   | 90,920               | 90,920           |
| Foreign currency translation     | —                      | —                      | —                        | —                        | —                             | 521   | —                    | 521              |
| Dividends:                       |                        |                        |                          |                          |                               |   |                      |                  |
| Common stock                     | —                      | —                      | —                        | —                        | —                             | —   | (18,635)             | (18,635)         |
| Stock purchases                  | —                      | —                      | (2,000)                  | (30,354)                 | —                             | —   | —                    | (30,354)         |
| Stock issued                     | 1,370                  | 14                     | —                        | —                        | 15,362                        | —   | —                    | 15,376           |
| <b>Balance October 31, 2003*</b> | 51,767                 | \$518                  | (3,400)                  | \$(53,986)               | \$166,497                     | \$(268)   | \$317,261            | \$430,022        |
| Net income*                      | —                      | —                      | —                        | —                        | —                             | —   | 30,473               | 30,473           |
| Foreign currency translation     | —                      | —                      | —                        | —                        | —                             | 160   | —                    | 160              |
| Dividends:                       |                        |                        |                          |                          |                               |   |                      |                  |
| Common stock                     | —                      | —                      | —                        | —                        | —                             | —   | (19,476)             | (19,476)         |
| Stock purchases                  | —                      | —                      | (600)                    | (11,073)                 | —                             | —   | —                    | (11,073)         |
| Stock issued                     | 940                    | 9                      | —                        | —                        | 12,046                        | —   | —                    | 12,055           |
| <b>Balance October 31, 2004</b>  | <u>52,707</u>          | <u>\$527</u>           | <u>(4,000)</u>           | <u>\$(65,059)</u>        | <u>\$178,543</u>              | <u>\$(108)</u>                                  | <u>\$328,258</u>     | <u>\$442,161</u> |

\*As restated

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended October 31<br>In thousands   | 2004             | 2003*             | 2002*             |
|--|------------------|-------------------|-------------------|
| <b>Cash flows from operating activities:</b>   |                  |                   |                   |
| Net income   | \$ 30,473        | \$ 90,920         | \$ 44,354         |
| Less income from discontinued operation  | —                | (55,296)          | (2,670)           |
| Income from continuing operations  | <u>30,473</u>    | <u>35,624</u>     | <u>41,684</u>     |
| <b>Adjustments to reconcile income from continuing operations<br/>to net cash provided by continuing operating activities:</b> |                  |                   |                   |
| Depreciation and intangible amortization   | 17,667           | 15,863            | 14,955            |
| Provision for bad debts  | 4,641            | 6,544             | 11,681            |
| Gain on sale of assets   | (226)            | (66)              | (236)             |
| Increase in deferred income taxes  | (12,262)         | (5,768)           | (2,640)           |
| (Increase) decrease in trade accounts receivable   | (37,728)         | 2,225             | 30,782            |
| (Increase) decrease in inventories   | (229)            | 3,081             | (4,214)           |
| Decrease (increase) in prepaid expenses and other current assets   | 6,581            | (3,105)           | 3,073             |
| Increase in other assets   | (3,074)          | (5,940)           | (3,445)           |
| Increase (decrease) in income taxes payable  | 5,935            | (769)             | 590               |
| Increase in retirement plans accrual   | 1,483            | 384               | 2,308             |
| Increase in insurance claims liability   | 37,622           | 9,674             | 7,841             |
| Increase (decrease) in trade accounts payable and<br>other accrued liabilities   | <u>13,314</u>    | <u>(4,027)</u>    | <u>(2,359)</u>    |
| Total adjustments to net income  | <u>33,724</u>    | <u>18,096</u>     | <u>58,336</u>     |
| Net cash flows from continuing operating activities  | <u>64,197</u>    | <u>53,720</u>     | <u>100,020</u>    |
| Net operational cash flows from discontinued operation   | <u>(30,507)</u>  | <u>6,422</u>      | <u>10,899</u>     |
| Net cash provided by operating activities  | <u>\$ 33,690</u> | <u>\$ 60,142</u>  | <u>\$ 110,919</u> |
| <b>Cash flows from investing activities:</b>   |                  |                   |                   |
| Additions to property, plant and equipment   | (11,497)         | (11,621)          | (7,345)           |
| Proceeds from sale of assets   | 796              | 2,451             | 1,692             |
| Decrease (increase) in investments and long-term receivables   | 4,100            | 3,493             | (1,081)           |
| Purchase of businesses   | (54,152)         | (40,574)          | (52,448)          |
| Proceeds from sale of business   | —                | 112,400           | —                 |
| Net investing cash flows from discontinued operation   | —                | (95)              | (136)             |
| Net cash (used in) provided by investing activities  | <u>(60,753)</u>  | <u>66,054</u>     | <u>(59,318)</u>   |
| <b>Cash flows from financing activities:</b>   |                  |                   |                   |
| Common stock issued  | 10,034           | 14,324            | 17,955            |
| Common stock purchases   | (11,073)         | (30,354)          | (23,632)          |
| Dividends paid   | (19,476)         | (18,635)          | (17,730)          |
| Repayments of long-term borrowings   | —                | —                 | (11,819)          |
| Net cash used in financing activities  | <u>(20,515)</u>  | <u>(34,665)</u>   | <u>(35,226)</u>   |
| Net (decrease) increase in cash and cash equivalents   | <u>(47,578)</u>  | <u>91,531</u>     | <u>16,375</u>     |
| Cash and cash equivalents beginning of year  | <u>110,947</u>   | <u>19,416</u>     | <u>3,041</u>      |
| <b>Cash and cash equivalents end of year</b>   | <u>\$ 63,369</u> | <u>\$ 110,947</u> | <u>\$ 19,416</u>  |
| <b>Supplemental data:</b>  |                  |                   |                   |
| Cash paid for income taxes   | \$ 52,723        | \$ 24,570         | \$ 21,699         |
| Non-cash investing activities:   |                  |                   |                   |
| Common stock issued for net assets of business acquired  | \$ —             | \$ —              | \$ 1,371          |

\*As restated

## SEGMENT INFORMATION (Condensed)

| In thousands  | Janitorial   | Parking    | Security   | Engineering | Lighting   | Other      | Corporate   | Assets held for sale | Consolidated Totals |
|---|--------------|------------|------------|-------------|------------|------------|-------------|----------------------|---------------------|
| <b>Year ended October 31, 2004</b>                    |              |            |            |             |            |            |             |                      |                     |
| Sales and other income                                | \$ 1,442,901 | \$ 384,547 | \$ 224,715 | \$ 200,771  | \$ 112,074 | \$ 49,459  | \$ 1,756    | \$ —                 | \$ 2,416,223        |
| Operating profit                                      | \$ 60,574    | \$ 9,514   | \$ 9,002   | \$ 11,976   | \$ 2,822   | \$ 1,486   | \$ (47,996) | \$ —                 | \$ 47,378           |
| Interest expense                                      | —            | —          | —          | —           | —          | —          | (1,016)     | —                    | (1,016)             |
| Income from continuing operations before income taxes | \$ 60,574    | \$ 9,514   | \$ 9,002   | \$ 11,976   | \$ 2,822   | \$ 1,486   | \$ (49,012) | \$ —                 | \$ 46,362           |
| Identifiable assets                                   | \$ 383,566   | \$ 78,548  | \$ 90,627  | \$ 38,159   | \$ 85,411  | \$ 14,997  | \$ 151,216  | \$ —                 | \$ 842,524          |
| <b>Year ended October 31, 2003*</b>                   |              |            |            |             |            |            |             |                      |                     |
| Sales and other income                                | \$ 1,368,282 | \$ 380,576 | \$ 159,670 | \$ 180,230  | \$ 127,539 | \$ 45,394  | \$ 785      | \$ —                 | \$ 2,262,476        |
| Operating profit                                      | \$ 53,899    | \$ 6,238   | \$ 6,485   | \$ 9,925    | \$ 5,646   | \$ 1,337   | \$ (29,205) | \$ —                 | \$ 54,325           |
| Interest expense                                      | —            | —          | —          | —           | —          | —          | (758)       | —                    | (758)               |
| Income from continuing operations before income taxes | \$ 53,899    | \$ 6,238   | \$ 6,485   | \$ 9,925    | \$ 5,646   | \$ 1,337   | \$ (29,963) | \$ —                 | \$ 53,567           |
| Identifiable assets                                   | \$ 363,004   | \$ 78,185  | \$ 35,828  | \$ 35,728   | \$ 80,211  | \$ 13,909  | \$ 197,441  | \$ —                 | \$ 804,306          |
| <b>Year ended October 31, 2002*</b>                   |              |            |            |             |            |            |             |                      |                     |
| Sales and other income                                | \$ 1,197,035 | \$ 363,511 | \$ 140,569 | \$ 173,561  | \$ 130,858 | \$ 61,963  | \$ 561      | \$ —                 | \$ 2,068,058        |
| Gain on insurance claim                               | —            | —          | —          | —           | —          | —          | 10,025      | —                    | 10,025              |
| Total revenues  | \$ 1,197,035 | \$ 363,511 | \$ 140,569 | \$ 173,561  | \$ 130,858 | \$ 61,963  | \$ 10,586   | \$ —                 | \$ 2,078,083        |
| Operating profit                                      | \$ 51,837    | \$ 6,948   | \$ 5,639   | \$ 10,033   | \$ 8,261   | \$ (1,190) | \$ (29,168) | \$ —                 | \$ 52,360           |
| Gain on insurance claim                               | —            | —          | —          | —           | —          | —          | 10,025      | —                    | 10,025              |
| Interest expense                                      | —            | —          | —          | —           | —          | —          | (1,052)     | —                    | (1,052)             |
| Income from continuing operations before income taxes | \$ 51,837    | \$ 6,948   | \$ 5,639   | \$ 10,033   | \$ 8,261   | \$ (1,190) | \$ (20,195) | \$ —                 | \$ 61,333           |
| Identifiable assets                                   | \$ 335,114   | \$ 80,889  | \$ 31,295  | \$ 32,435   | \$ 82,197  | \$ 15,080  | \$ 103,404  | \$ 32,136            | \$ 712,550          |

\*As restated

### Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors  
ABM Industries Incorporated

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ABM Industries Incorporated (the Company) as of October 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 2004. In our report dated January 14, 2005, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

As discussed in Note 2 of the consolidated financial statements included in the 2004 annual report on Form 10-K filed by the Company with the Securities and Exchange Commission, the consolidated balance sheet as of October 31, 2003, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the years in the two-year period ended October 31, 2003 have been restated.

**KPMG LLP**

San Francisco, California  
January 14, 2005

### Factors That May Affect Future Results

This Annual Report contains some forward-looking statements that set forth anticipated results based on management's plans and assumptions. While it is not possible to predict all factors that could cause the Company's actual results to differ materially from past results or those anticipated, estimated or projected, the risks and uncertainties include the following: (1) A decline in commercial office building occupancy and rental rates that affects sales and profitability; (2) an increase in costs that the Company cannot pass on to customers; (3) the financial difficulties or bankruptcy of one or more of the Company's major customers could adversely affect results; (4) major collective bargaining disputes that lead to the loss of sales or expense increases; (5) strong competitive pressures that inhibit the Company's success in bidding for profitable business and its ability to increase prices even as costs rise, thereby reducing margins; (6) difficulty in preserving long-term relationships with customers; (7) weakness in airline travel and the hospitality industry that adversely impacts the Company's Parking results; (8) a continued slowdown in capital investments by customers that negatively affects the projected sales of the Lighting and Mechanical segments; (9) acquisition activity slows or is unsuccessful; (10) an increase in the Company's accounting and other control costs; (11) a change in the frequency or severity of claims against the Company, a deterioration in claims management, or the cancellation or nonrenewal of the Company's primary insurance policies could adversely affect results; and (12) resignation, termination, death or disability of one or more of the Company's key executives. These and other risks and uncertainties are described more fully in the Company's Annual Report on Form 10-K for the year ended October 31, 2004. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. Investors are advised to consult the Company's Annual Report on Form 10-K and any future disclosures the Company makes on related subjects in its Form 10-Q and Form 8-K reports to the Securities and Exchange Commission.