Regency Energy Partners LP
Form 10-Q/A
May 14, 2009

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

FORM 10-Q/A
(Amendment No. 2)

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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: 000-51757

REGENCY ENERGY PARTNERS LP
(Exact name of registrant as specified in its charter)

DELAWARE	16-1731691
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2001 BRYAN STREET, SUITE 3700 DALLAS, TX	75201
(Address of principal executive offices)	(Zip Code)

(214) 750-1771
(Registrant’s telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o

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

The issuer had 81,187,728 common units outstanding as of April 30, 2009.

REGENCY ENERGY PARTNERS LP EXPLANATORY NOTE

The purpose of this Amendment No. 2 to Regency Energy Partners LP's quarterly report on Form 10-Q for the quarter ended March 31, 2009 is to correct information provided with respect to the guarantors of the 8 3/8 percent Senior Notes due 2013. Please see Note 6 to the Unaudited Condensed Consolidated Financial Statements. This amendment also corrects notional volumes for hedged commodities disclosed in Item 3.

Introductory Statement

References in this report to the “Partnership,” “we,” “our,” “us” and similar terms, when used in a historical context, refer to Regency Energy Partners LP. When used in the present tense or prospectively, these terms refer to the Partnership and its subsidiaries. We use the following definitions in this quarterly report on Form 10-Q:

Name	Definition or Description
Alinda	Alinda Capital Partners LLC, a Delaware limited liability company that is an independent private investment firm specializing in infrastructure investments
Alinda Investor I	Alinda Gas Pipelines I, L.P., a Delaware limited partnership
Alinda Investor II	Alinda Gas Pipelines II, L.P., a Delaware limited partnership
Alinda Investors	Alinda Investor I and Alinda Investor II, collectively
Bbls/d	Barrels per day
Bcf	One billion cubic feet
Bcf/d	One billion cubic feet per day
BTU	A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit
CDM	CDM Resource Management LLC
EITF	Emerging Issues Task Force
El Paso	El Paso Field Services, LP
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FSP	Financial Accounting Standards Board Statement of Position
GAAP	Accounting principles generally accepted in the United States
GE	General Electric Company
GE EFS	General Electric Energy Financial Services, a unit of GECC, combined with Regency GP Acquirer LP and Regency LP Acquirer LP
GECC	General Electric Capital Corporation, an indirect wholly owned subsidiary of GE
General Partner	Regency GP LP, the general partner of the Partnership, or Regency GP LLP, the general partner of Regency GP LP, which effectively manages the business and affairs of the Partnership
HPC	RIGS Haynesville Partnership Co., a general partnership that owns 100 percent of RIGS
Lehman	Lehman Brothers Holdings, Inc.
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MMbtu	One million BTUs
MMbtu/d	One million BTUs per day
MMcf	One million cubic feet
MMcf/d	One million cubic feet per day
NOE	Notice of Enforcement
NGLs	Natural gas liquids
Nasdaq	Nasdaq Stock Market, LLC
NYMEX	New York Mercantile Exchange
Partnership	Regency Energy Partners LP
RGS	Regency Gas Services LP
RIGS	Regency Intrastate Gas LP
Regency HIG	Regency Haynesville Intrastate Gas LLC, a wholly owned subsidiary of the Partnership
SEC	Securities and Exchange Commission

SFAS	Statement of Financial Accounting Standard
Sonat	Southern Natural Gas Company
TCEQ	Texas Commission on Environmental Quality
Tcf	One trillion cubic feet
Tcf/d	One trillion cubic feet per day

Cautionary Statement about Forward-Looking Statements

Certain matters discussed in this report include “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may” or similar expre identify forward-looking statements. Although we believe our forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, we can not give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions including without limitation the following:

- declines in the credit markets and the availability of credit for us as well as for producers connected to our system and our customers;
- the level of creditworthiness of, and performance by, our counterparties and customers;
- our access to capital to fund organic growth projects and acquisitions, and our ability to obtain debt or equity financing on satisfactory terms;
- our use of derivative financial instruments to hedge commodity and interest rate risks;
- the amount of collateral required to be posted from time to time in our transactions;
- changes in commodity prices, interest rates, demand for our services;
- changes in laws and regulations impacting the midstream sector of the natural gas industry;
- weather and other natural phenomena;
- industry changes including the impact of consolidations and changes in competition;
- our ability to obtain required approvals for construction or modernization of our facilities and the timing of production from such facilities; and
- the effect of accounting pronouncements issued periodically by accounting standard setting boards.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may differ materially from those anticipated, estimated, projected or expected.

Other factors that could cause our actual results to differ from our projected results are discussed in Item 1A of our December 31, 2008 annual report.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 1. Financial Statements

Regency Energy Partners LP
Condensed Consolidated Balance Sheets
(in thousands except unit data)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,578	$ 599
Trade accounts receivable, net of allowance of $1,073 and $941	35,349	40,875
Accrued revenues	70,200	96,712
Related party receivables	4,998	855
Assets from risk management activities	67,020	73,993
Other current assets	7,911	23,369
Total current assets	192,056	236,403
Property, Plant and Equipment:		
Gathering and transmission systems	449,971	652,267
Compression equipment	805,873	799,527
Gas plants and buildings	154,553	156,246
Other property, plant and equipment	152,089	167,256
Construction-in-progress	92,462	154,852
Total property, plant and equipment	1,654,948	1,930,148
Less accumulated depreciation	(204,256)	(226,594)
Property, plant and equipment, net	1,450,692	1,703,554
Other Assets:		
Investment in unconsolidated subsidiary	400,336	-
Long-term assets from risk management activities	26,944	36,798
Other, net of accumulated amortization of debt issuance costs of $6,292 and $5,246	17,723	13,880
Total other assets	445,003	50,678
Intangible Assets and Goodwill:		
Intangible assets, net of accumulated amortization of $24,659 and $22,517	199,564	205,646
Goodwill	228,114	262,358
Total intangible assets and goodwill	427,678	468,004
TOTAL ASSETS	$ 2,515,429	$ 2,458,639
LIABILITIES & PARTNERS' CAPITAL AND NONCONTROLLING INTEREST		
Current Liabilities:		
Trade accounts payable	$ 44,151	$ 65,483
Accrued cost of gas and liquids	53,133	76,599
Related party payables	247	-
	11,498	11,572

Deferred revenue, including related party amounts of $22 and $0				
Liabilities from risk management activities		31,729		42,691
Other current liabilities		19,583		20,605
Total current liabilities		160,341		216,950
Long-term liabilities from risk management activities		-		560
Other long-term liabilities		15,247		15,487
Long-term debt		1,133,233		1,126,229
Commitments and contingencies				
Partners' Capital and Noncontrolling Interest:				
Common units (81,786,730 and 55,519,903 units authorized; 81,187,728 and 54,796,701 units issued and outstanding at March 31, 2009 and December 31, 2008)		1,108,752		764,161
Class D common units (7,276,506 units authorized, issued and outstanding at December 31, 2008)		-		226,759
Subordinated units (19,103,896 units authorized, issued and outstanding at December 31, 2008)		-		(1,391)
General partner interest		25,495		29,283
Accumulated other comprehensive income		58,570		67,440
Noncontrolling interest		13,791		13,161
Total partners' capital and noncontrolling interest		1,206,608		1,099,413
TOTAL LIABILITIES AND PARTNERS' CAPITAL AND NONCONTROLLING INTEREST	$	2,515,429	$	2,458,639

See accompanying notes to condensed consolidated financial statements

1

Regency Energy Partners LP
Condensed Consolidated Income Statements
Unaudited
(in thousands except unit data and per unit data)

	Three Months Ended March 31, 2009	2008
REVENUES		
Gas sales	$ 148,270	$ 236,692
NGL sales	49,585	108,499
Gathering, transportation and other fees, including related party amounts of $811 and $991	72,621	61,986
Net realized and unrealized gain (loss) from risk management activities	14,455	(13,657)
Other	5,194	11,715
Total revenues	290,125	405,235
OPERATING COSTS AND EXPENSES		
Cost of sales, including related party amounts of $247 and $403	182,901	313,589
Operation and maintenance	36,042	28,845
General and administrative	14,852	11,271
Gain on asset sales, net	(133,932)	-
Management services termination fee	-	3,888
Depreciation and amortization	27,889	21,741
Total operating costs and expenses	127,752	379,334
OPERATING INCOME	162,373	25,901
Income from unconsolidated subsidiary	336	-
Interest expense, net	(14,227)	(15,406)
Other income and deductions, net	42	176
INCOME BEFORE INCOME TAXES	148,524	10,671
Income tax expense	100	251
NET INCOME	$ 148,424	$ 10,420
Net income attributable to noncontrolling interest	(35)	(72)
NET INCOME ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	$ 148,389	$ 10,348
General partner's interest, including IDR	3,533	776
Net income allocated to non-vested units	1,354	95
Beneficial conversion feature for Class D common units	820	1,559
Limited partners' interest	$ 142,682	$ 7,918
Basic and Diluted earnings per unit:		
Amount allocated to common and subordinated units	$ 142,682	$ 7,918
	77,271,886	59,229,507

Weighted average number of common and subordinated units outstanding				
Basic income per common and subordinated unit	$	1.85	$	0.13
Diluted income per common and subordinated unit	$	1.78	$	0.13
Distributions per unit	$	0.445	$	0.40
Amount allocated to Class D common units	$	820	$	1,559
Total number of Class D common units outstanding		7,276,506		7,276,506
Income per Class D common unit due to beneficial conversion feature	$	0.11	$	0.21
Distributions per unit	$	-	$	-
Amount allocated to Class E common units	$	-	$	-
Total number of Class E common units outstanding		-		4,701,034
Income per Class E common unit	$	-	$	-
Distributions per unit	$	-	$	-

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Statements of Comprehensive Income
Unaudited
(in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net income	$ 148,424	$ 10,420
Net hedging amounts reclassified to earnings	(14,250)	10,435
Net change in fair value of cash flow hedges	5,380	(2,834)
Comprehensive income	139,554	18,021
Comprehensive income attributable to noncontrolling interest	(35)	(72)
Comprehensive income attributable to Regency Energy Partners LP	$ 139,519	$ 17,949

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Statements of Cash Flows
Unaudited
(in thousands)

	Three Months Ended March 31, 2009		2008	
OPERATING ACTIVITIES				
Net income	$	148,424	$	10,420
Adjustments to reconcile net income to net cash flows provided by operating activities:				
Depreciation and amortization, including debt issuance cost amortization		28,932		22,398
Income from unconsolidated subsidiary		(336)		-
Risk management portfolio valuation changes		(3,565)		3,098
Gain on asset sales, net		(133,932)		-
Unit based compensation expenses		1,189		794
Cash flow changes in current assets and liabilities:				
Trade accounts receivable, accrued revenues, and related party receivables		22,741		(19,264)
Other current assets		10,458		2,800
Trade accounts payable, accrued cost of gas and liquids, and related party payables		(36,948)		25,950
Other current liabilities		(1,022)		18,249
Other assets and liabilities		390		(6,907)
Net cash flows provided by operating activities		36,331		57,538
INVESTING ACTIVITIES				
Capital expenditures		(80,255)		(97,896)
Acquisitions		-		(574,059)
Proceeds from asset sales		83,097		-
Net cash flows provided by (used in) investing activities		2,842		(671,955)
FINANCING ACTIVITIES				
Net borrowings under revolving credit facilities		7,004		609,000
Partner contributions		-		7,663
Partner distributions		(34,143)		(24,341)
Debt issuance costs		(6,055)		-
Net cash flows provided by (used in) financing activities		(33,194)		592,322
Net increase (decrease) in cash and cash equivalents		5,979		(22,095)
Cash and cash equivalents at beginning of period		599		32,971
Cash and cash equivalents at end of period	$	6,578	$	10,876
Supplemental cash flow information:				
Interest paid, net of amounts capitalized	$	5,502	$	5,047

Non-cash capital expenditures in accounts payable	18,241	18,517
Issuance of common units for an acquisition	-	219,590
Contribution of fixed assets, goodwill and working capital to RIGS Haynesville Partnership Co.	266,024	-

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Statements of Partners' Capital and Noncontrolling Interest
Unaudited
(in thousands except unit data)

	Regency Energy Partners LP									
	Units									
	Common	Class D	Subordinated	Common	Class D	Subordinated	General Partner Interest	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance - December 31, 2008	54,796,701	7,276,506	19,103,896	$ 764,161	$ 226,759	$ (1,391)	$ 29,283	$ 67,440	$ 13,161	$ 1,099,413
Revision of partner interest	-	-	-	6,073	-	-	(6,073)	-	-	-
Issuance of restricted common units, net of forfeitures	10,625	-	-	-	-	-	-	-	-	-
Conversion of subordinated units	19,103,896	-	(19,103,896)	(1,391)	-	1,391	-	-	-	-
Unit based compensation expenses	-	-	-	1,189	-	-	-	-	-	1,189
Partner distributions	-	-	-	(32,895)	-	-	(1,248)	-	-	(34,143)
Net income	-	-	-	144,036	820	-	3,533	-	35	148,424
Conversion of Class D common units	7,276,506	(7,276,506)	-	227,579	(227,579)	-	-	-	-	-
Contributions from noncontrolling interest	-	-	-	-	-	-	-	-	595	595
Net hedging amounts reclassified to earnings	-	-	-	-	-	-	-	(14,250)	-	(14,250)
Net change in fair value of cash flow hedges	-	-	-	-	-	-	-	5,380	-	5,380
Balance - March 31, 2009	81,187,728	-	-	$ 1,108,752	$ -	$ -	$ 25,495	$ 58,570	$ 13,791	$ 1,206,608

See accompanying notes to condensed consolidated financial statements

5

Regency Energy Partners LP
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies
Organization. The unaudited condensed consolidated financial statements presented herein contain the results of Regency Energy Partners LP and its wholly owned subsidiaries. The Partnership and its subsidiaries are engaged in the business of gathering, processing, contract compression, transporting, and marketing natural gas and NGLs.

The unaudited financial information as of, and for the three months ended March 31, 2009 has been prepared on the same basis as the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of the Partnership's management, such financial information reflects all adjustments necessary for a fair presentation of the financial position and the results of operations for such interim periods in accordance with GAAP. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Use of Estimates. The unaudited condensed consolidated financial statements have been prepared in conformity with GAAP and, of necessity, include the use of estimates and assumptions by management. Actual results could differ from these estimates.

Equity Method Investments. The equity method of accounting is used to account for the Partnership's interest in investments greater than 20 percent and where the Partnership lacks control over the investee.

Intangible Assets. Intangible assets, net consist of the following.

	Permits and Licenses	Customer Contracts	Trade Names	Customer Relations	Total
			(in thousands)		
Balance at December 31, 2008	$ 8,582	$ 126,799	$ 32,848	$ 37,417	$ 205,646
Disposals	(2,932)	-	-	-	(2,932)
Amortization	(174)	(1,807)	(585)	(584)	(3,150)
Balance at March 31, 2009	$ 5,476	$ 124,992	$ 32,263	$ 36,833	$ 199,564

The weighted average amortization period for permits and licenses, customer contracts, trade names, and customer relations are 15, 24, 15, and 19 years, respectively. Permits and licenses are generally renewed with minimal expense as a charge to operating and maintenance expense in the period incurred. Regarding customer contracts, the actual remaining life of the contracts were used to evaluate the cash flows expected with no renewal assumption. The trade name and customer relations intangible assets use the going concern assumption with no renewal cost. The expected amortization of the intangible assets for each of the five succeeding years is as follows.

Year ending December 31,	Total (in thousands)
2009 (remaining)	$ 9,064
2010	12,086
2011	10,828
2012	10,535
2013	10,535

Revision to Partners' Capital Accounts. In 2009, the Partnership revised the allocation of net income between the general partner and common unit holders from a previous period to reflect the income allocation provisions of the Partnership agreement. The effect of this revision is not material to the prior financial statements.

Recently Issued Accounting Standards. In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which significantly changes the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. The Partnership adopted SFAS 141(R) on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which significantly changes the accounting and reporting related to noncontrolling interests in a consolidated subsidiary. The Partnership adopted SFAS No. 160 for all periods presented. This statement requires the recognition of a noncontrolling interest (formerly styled as a minority interest) in partners' capital in the consolidated financial statements and separate from the partners' interest. Also, the amount of net income attributable to the noncontrolling interest is included in the consolidated net income on the face of the income statement.

In March 2008, the FASB issued EITF 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships" ("EITF 07-4"). EITF 07-4 defines how to allocate net income among the various classes of equity, including incentive distribution rights (or "IDRs"), narrowing the number of currently acceptable methods. The standard became effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application was not permitted, and EITF 07-4 must be applied retrospectively for all financial statements presented. The adoption of this standard changes the Partnership's method of allocating net income to holders of the IDRs in periods where net income exceeds cash distributed. Because the Partnership Agreement restricts the amount of distributions to holders of IDRs based on cash available for distribution, undistributed net income will be allocated based on the ownership interests of the general partner and unitholders. Further, because the IDR's are deemed to have no ownership interest , no undistributed net income will be allocated to this class of security. All prior period earnings per unit data have been adjusted.

In April 2008, FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets. The objective of FSP 142-3 is to better match the useful life of intangible assets to the cash flow generated. FSP 142-3 became effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The adoption of FSP 142-3 did not impact the Partnership's financial position, results of operations, or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity of GAAP. SFAS 162's effective date is November 15, 2008. The adoption of SFAS 162 did not have a material impact on the Partnership's financial position, results of operations, or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1") and is effective for fiscal years beginning after December 15, 2008. The adoption of this standard was applied retrospectively and had an imaterial impact on the Partnership's earnings per unit.

2. Income per Limited Partner Unit

The Partnership issued 7,276,506 Class D common units in connection with the CDM acquisition. At the commitment date, the sales price of $30.18 per unit represented a $1.10 discount from the fair value of the Partnership's common units. Under EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," the discount represented a beneficial conversion feature that is treated as a non-cash distribution for purposes of calculating earnings per unit. The beneficial conversion feature is reflected in income per unit using the effective yield method over the period the Class D common units are outstanding, as indicated on the statements of operations in the line item entitled "beneficial conversion feature for Class D common units." The Class D common units converted to common units on a one-for-one basis on February 9, 2009.

The following table provides a reconciliation of the basic and diluted earnings per unit computations.

	For the Three Months Ended March 31, 2009			For the Three Months Ended March 31, 2008		
	Income	Units	Per-Unit Amount	Income	Units	Per-Unit Amount
	(in thousands except unit and per unit data)					
Basic Earnings per Unit						
	$ 142,682	77,271,886	$ 1.85	$ 7,918	59,229,507	$ 0.13

Limited Partners' interest in net income						
Effect of Dilutive Securities						
Common unit options	-	-		-	207,817	
Class D common units	820	3,234,003		1,559	7,276,506	
Class E common units	-	-		-	4,701,034	
Diluted Earnings per Unit	$ 143,502	80,505,889	$ 1.78	$ 9,477	71,414,864	$ 0.13

The following table shows securities that could potentially dilute earnings per unit in the future that were not included in the computation of diluted earnings per unit because to do so would have been antidilutive.

	Three Months Ended	
	March 31, 2009	March 31, 2008
Common unit options	328,618	-
Restricted common units	699,175	555,000

3. Disposition

On March 17, 2009, the Partnership announced the completion of the transactions contemplated by the Contribution Agreement (the "Contribution Agreement") relating to a new joint venture arrangement among Regency HIG, GECC and the Alinda Investors. The Partnership contributed to HPC RIGS, which owns the Regency Intrastate Gas System, valued at $400,000,000, in exchange for a 38 percent general partnership interest in HPC. GECC and the Alinda Investors contributed $126,500,000 and $526,500,000 in cash, respectively, to HPC in return for a 12 percent and a 50 percent general partnership interest, respectively. In accordance with SFAS No. 160, the disposition and deconsolidation resulted in the recording of a $133,940,000 gain (of which $52,857,000 represents the remeasurement of the Partnership retained 38 percent interest to its fair value), net of transaction costs of $5,158,000.

The following unaudited pro forma financial information has been prepared as if the acquisitions of FrontStreet, CDM and Nexus and the contribution of RIGS to HPC had occurred as of the beginning of the earliest period presented. Such unaudited pro forma financial information does not purport to be indicative of the results of operations that would have been achieved if the transactions to which the Partnership is giving pro forma effect actually occurred on the date referred to above or the results of operations that may be expected in the future.

	Pro Forma Results for the Three Months Ended			
	March 31, 2009		March 31, 2008	
	(in thousands except unit and per unit data)			
Revenue	$	277,796	$	398,950
Net income attributable to Regency Energy Partners LP	$	10,970	$	145,803
Less:				
General partner's interest, including IDR		785		2,920
Non-vested common unit holders' interest		90		1,404
Beneficial conversion feature for Class D common units		820		1,559
Limited partners' interest in net income	$	9,275	$	139,919
Basic and Diluted earnings per unit:				
Amount allocated to common and subordinated units	$	9,275	$	139,919
Weighted average number of common and subordinated units outstanding		77,271,886		59,229,507
Basic income per common and subordinated unit	$	0.12	$	2.36
Diluted income per common and subordinated unit	$	0.12	$	2.01
Distributions per unit	$	0.445	$	0.40
Amount allocated to Class D common units	$	820	$	1,559
Total number of Class D common units outstanding		7,276,506		7,276,506
Basic and diluted income per Class D common unit due to beneficial conversion feature	$	0.11	$	0.21
Distributions per unit	$	-	$	-
Amount allocated to Class E common units	$	-	$	-
Weighted average number of Class E common units outstanding		-		4,701,034
Basic and diluted income per Class E common unit	$	-	$	-
Distributions per unit	$	-	$	-

4. Investment in Unconsolidated Subsidiary

As described in the Disposition footnote, the Partnership contributed RIGS to HPC for a 38 percent general partner interest in HPC. The summarized financial information of HPC as of March 31, 2009 and for the period from inception (March 18, 2009) to March 31, 2009 is disclosed below in accordance with Rule 4-08 of Regulation S-X. The Partnership recognized $336,000 in investing income from unconsolidated subsidiary for its 38 percent ownership interest from inception (March 18, 2009) to March 31, 2009.

Condensed Consolidated Balance Sheet
March 31, 2009
Unaudited
(in thousands)

ASSETS		
Total current assets	$	537,178
Property, plant and equipment, net		481,143
Total other assets		61,564
TOTAL ASSETS	$	1,079,885
LIABILITIES & PARTNERS' CAPITAL		
Total current liabilities	$	26,001
Partners' capital		1,053,884
TOTAL LIABILITIES & PARTNERS' CAPITAL	$	1,079,885

Condensed Consolidated Income Statement
From Inception (March 18, 2009) to March 31, 2009
Unaudited
(in thousands)

Total revenues	$	1,826
Total operating costs and expenses, including depreciation expense of $669		1,046
OPERATING INCOME		780
Other income and deductions, net		104
NET INCOME	$	884

5. Risk Management Activities

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures about derivative and hedging activities. The Partnership adopted this standard as of January 1, 2009 and its adoption had no impact on the results of operations or cash flows.

Risk and Accounting Policies. The Partnership is exposed to market risks associated with commodity prices, counterparty credit, and interest rates. The Partnership established comprehensive risk management policies and procedures to monitor and manage these market risks. The Partnership’s General Partner is responsible for delegation of transaction authority levels, and the Risk Management Committee of the General Partner is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits. The Risk Management Committee receives regular briefings on positions and exposures, credit exposures, and overall risk management in the context of market activities.

The Partnership primarily deals with financial institutions when entering into financial derivatives.

Commodity Price Risk. The Partnership is exposed to the impact of market fluctuations in the prices of natural gas, NGLs, and other commodities as a result of our gathering, processing and marketing activities, and the Partnership is a net seller of natural gas, NGLs and condensate. The Partnership attempts to mitigate commodity price risk exposure by matching pricing terms between its purchases and sales of commodities. To the extent that the Partnership markets commodities in which pricing terms cannot be matched and there is a substantial risk of price exposure, the Partnership attempts to use financial hedges to mitigate the risk. It is the Partnership’s policy not to take any speculative marketing positions. In some cases, the Partnership may not be able to match pricing terms or to cover its risk to price exposure with financial hedges, and it may be exposed to commodity price risk.

Both the Partnership’s profitability and cash flows are affected by volatility in prevailing natural gas and NGL prices. Natural gas and NGL prices are impacted by changes in the supply and demand for NGLs and natural gas, as well as market uncertainty. Adverse effects on cash flows from reductions in natural gas and NGL product prices could adversely affect the Partnership’s ability to make distributions to unitholders. The Partnership manages this commodity price exposure through an integrated strategy that includes management of its contract portfolio, matching sales prices of commodities with purchases, optimization of our portfolio by monitoring basis and other price differentials in operating areas, and the use of derivative contracts.

The Partnership has executed swap contracts settled against condensate, ethane, propane, butane, natural gas, and natural gasoline market prices. The Partnership hedged its expected exposure to declines in prices for natural gas, NGLs and condensate volumes produced for its account in the approximate percentages set for below:

	2009	2010
NGL	97%	36%
Condensate	75	76

Natural gas	83	-

Effective June 19, 2007, the Partnership elected to account for all outstanding commodity hedging instruments on a mark-to-market basis except for the portion pursuant to which all NGL products for a particular year were hedged and the hedging relationship was, for accounting purposes, effective. The dedesignated swaps continued to serve as economic hedges against price exposure for the Partnership. At March 31, 2009, the Partnership has the following commodity hedging programs that qualify as cash flow hedges: the 2009 NGLs, natural gas and West Texas Intermediate crude oil hedging programs and the 2010 West Texas Intermediate crude oil hedging program.

In March 2008, the Partnership entered offsetting trades against its existing 2009 NGL portfolio of mark-to-market hedges, which it believes will substantially reduce the volatility of its 2009 NGL hedges. This group of trades, along with the pre-existing 2009 NGL portfolio, will continue to be accounted for on a mark-to-market basis. Simultaneously, the Partnership executed additional 2009 NGL swaps which were designated under SFAS 133 as cash flow hedges. In May 2008, the Partnership entered into commodity swaps to hedge a portion of its 2010 NGL commodity risk, except for ethane, which do not qualify for cash flow hedging accounting treatment.

The Partnership accounts for a portion of its West Texas Intermediate crude oil swaps using mark-to-market accounting. In August 2008, the Partnership entered into an offsetting trade against its existing 2009 West Texas Intermediate crude oil swap to minimize the volatility of the original 2009 swap. Simultaneously, the Partnership executed an additional 2009 West Texas Intermediate crude oil swap, which was designated as a cash flow hedge. In May 2008, the Partnership entered into a West Texas Intermediate crude oil swap to hedge its 2010 condensate price risk, which was designated as a cash flow hedge.

On December 2, 2008, the Partnership entered into two natural gas swaps to hedge its equity exposure to natural gas for 2009. These natural gas swaps were designated as cash flow hedges on December 2, 2008.

Interest Rate Risk. The Partnership is exposed to variable interest rate risk as a result of borrowings under our existing credit facility. As of March 31, 2009, we had $475,733,000 of outstanding long-term balances exposed to variable interest rate risk. An increase of 100 basis points in the LIBOR rate would increase our annual payment by $4,757,000. On February 29, 2008, the Partnership entered into two-year interest rate swaps related to $300,000,000 of borrowings under its revolving credit facility, effectively locking the base rate for these borrowings at 2.4 percent, plus the applicable margin (3 percent as of March 31, 2009) through March 5, 2010. These interest rate swaps were designated as cash flow hedges in March 2008.

Credit Risk. The Partnership's purchase and resale of natural gas exposes it to credit risk, as the margin on any sale is generally a very small percentage of the total sales price. Therefore a credit loss can be very large relative to overall profitability. The Partnership attempts to ensure that it issues credit only to credit-worthy counterparties and that in appropriate circumstances any such extension of credit is backed by adequate collateral such as a letter of credit or a parental guarantee.

The Partnership is exposed to credit risk from it derivative counterparties. The Partnership does not require collateral from these counterparties. If the Partnership's counterparties failed to perform under existing swap contracts, the Partnership would experience a loss of $96,213,000 based on commodity forward curve pricing as of March 31, 2009. The Partnership has entered into Master International Swap Dealers Association Agreements that allow for netting of swap contract receivables and payables in the event of default by either party. If the Partnership's counterparties failed to perform under existing swap contracts, the Partnership's maximium loss of $96,213,000 would be reduced by $27,394,000 due to the netting feature.

Quantitative Disclosures. The Partnership expects to reclassify $49,112,000 of net hedging gains to revenues or interest expense from accumulated other comprehensive income in the next twelve months.

The Partnership's risk management activities assets and liabilities, including its SFAS No. 157, "Fair Value Measurements" ("SFAS 157") credit risk adjustment, are detailed below for the periods ended March 31, 2009 and December 31, 2008.

	Asset Derivatives Fair Value	
	March 31, 2009	December 31, 2008
	(in thousands)	
Derivatives designated as cash flow hedging instruments		
Current assets from risk management activities		
Commodity contracts	$ 53,436	$ 59,882
Long-term assets from risk management activities		
Commodity contracts	10,133	13,373
Total cash flow hedging instruments	63,569	73,255
Derivatives not designated as hedging instruments		
Current assets from risk management activities		
Commodity contracts	15,833	16,001
Long-term assets from risk management activities		
Commodity contracts	16,811	23,425
Total derivatives not designated as hedging instruments	32,644	39,426

SFAS 157 Credit Risk Assessment		
Current assets from risk management activities	(2,249)	(1,890)
Total assets from risk management activities	$ 93,964	$ 110,791

	Liability Derivatives Fair Value							
	March 31, 2009	December 31, 2008						
	(in thousands)							
Derivatives designated as cash flow hedging instruments				2,256	(1,396)	(172)		(1,568)
Total	$ 45,409	$ 49,341	$	$ 94,750	$ (20,836)	$ (11,735)	$	$ (32,571)

Of the $62.2 million net carrying amount of intangibles other than goodwill as of October 31, 2008, $51.1 million was not amortizable for income tax purposes because the related businesses were purchased through tax-free stock acquisitions.

	Gross Carrying Amount				Accumulated Amortization			
(in thousands)	October 31, 2006	Additions	Retirements and Other	October 31 2007	October 31, 2006	Additions	Retirements and Other	October 31 2007
Customer contracts and relationships	$ 33,713	$ 5,666	$	$ 39,379	$ (12,281)	$ (4,805)	$	$ (17,086)
Trademarks and trade names	3,050	800		3,850	(1,767)	(587)		(2,354)
Other (contract rights, etc.)	2,668		(488)	2,180	(1,502)	(173)	279	(1,396)
Total	$ 39,431	$ 6,466	$ (488)	$ 45,409	$ (15,550)	$ (5,565)	$ 279	$ (20,836)

The weighted average remaining lives as of October 31, 2008 and the amortization expense for the years ended October 31, 2008, 2007 and 2006 of intangibles, as well as the estimated amortization expense for such intangibles for each of the five succeeding fiscal years are as follows:

Weighted

($ in thousands)	Average Remaining Life (Years)	Amortization Expense Years Ended October 31, 2008	2007	2006	Estimated Amortization Expense Years Ending October 31, 2009	2010	2011	2012	2013
Customer contracts and relationships	11.6	$ 10,895	$ 4,805	$ 4,741	$ 10,150	$ 9,055	$ 7,960	$ 6,924	$ 5,919
Trademarks and trade names	7.0	668	587	540	313	110	110	110	110
Other (contract rights, etc.)	6.2	172	173	483	162	132	132	113	38
Total	11.5	$ 11,735	$ 5,565	$ 5,764	$ 10,625	$ 9,297	$ 8,202	$ 7,147	$ 6,067

5. LINE OF CREDIT FACILITY

In connection with the acquisition of OneSource, the Company terminated its $300.0 million line of credit on November 14, 2007 and replaced it with a new $450.0 million five year syndicated line of credit that is scheduled to expire on November 14, 2012 (new Facility). Borrowings under the new Facility were used to acquire OneSource on November 14, 2007. The new Facility is available for working capital, the issuance of standby letters of credit, the financing of capital expenditures, and other general corporate purposes.

49

Under the new Facility, no compensating balances are required and the interest rate is determined at the time of borrowing based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.625% to 1.375% or, at ABM s election, at the higher of the federal funds rate plus 0.5% and the Bank of America prime rate (Alternate Base Rate) plus a spread of 0.000% to 0.375%. A portion of the new Facility is also available for swing line (same-day) borrowings at the Interbank Offered Rate (IBOR) plus a spread of 0.625% to 1.375% or, at ABM s election, at the Alternate Base Rate plus a spread of 0.000% to 0.375%. The new Facility calls for a non-use fee payable quarterly, in arrears, of 0.125% to 0.250% of the average, daily, unused portion of the new Facility. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with ABM s self-insurance program and cash borrowings are included as usage of the new Facility. The spreads for LIBOR, Alternate Base Rate and IBOR borrowings and the commitment fee percentage are based on ABM s leverage ratio. The new Facility permits ABM to request an increase in the amount of the line of credit by up to $100.0 million (subject to receipt of commitments for the increased amount from existing and new lenders). The standby letters of credit outstanding under the prior facility have been replaced and are now outstanding under the new Facility. As of October 31, 2008, the total outstanding amounts under the new Facility in the form of cash borrowings and standby letters of credit were $230.0 million and $112.4 million, respectively. Available credit under the line of credit was up to $107.6 million as of October 31, 2008.

The new Facility includes covenants limiting liens, dispositions, fundamental changes, investments, indebtedness, and certain transactions and payments. In addition, the new Facility also requires that ABM maintain three financial covenants: (1) a fixed charge coverage ratio greater than or equal to 1.50 to 1.0 at each fiscal quarter-end; (2) a leverage ratio of less than or equal to 3.25 to 1.0 at each fiscal quarter-end; and (3) a consolidated net worth of greater than or equal to the sum of (i) $475.0 million, (ii) an amount equal to 50% of the consolidated net income earned in each full fiscal quarter ending after November 14, 2007 (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 and its subsidiaries after November 14, 2007 by reason of the issuance and sale of capital stock or other equity interests of ABM or any subsidiary, 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 ABM s employee stock purchase plans, employee stock option plans and similar programs. The Company was in compliance with all covenants as of October 31, 2008 and expects to be in compliance for the foreseeable future.

If an event of default occurs under the new Facility, including certain cross-defaults, insolvency, change in control, and violation of specific covenants, among others, the lenders can terminate or suspend ABM s access to the new Facility, declare all amounts outstanding under the new Facility, including all accrued interest and unpaid fees, to be immediately due and payable, and/or require that ABM cash collateralize the outstanding letter of credit obligations.

6. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

On October 31, 2007, the Company adopted SFAS No. 158 (SFAS 158) Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. In connection with the adoption, the Company recognized the funded status of the Company s pension and other postretirement benefits plans on its balance sheet as of October 31, 2007 with subsequent changes in the funded status recognized in comprehensive income in the years in which they occur. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position. Accordingly, in 2008, the Company changed the measurement date for its annual pension plans and other postretirement benefits plans from September 30 to October 31, which did not have a material impact to the consolidated financial statements.

As of October 31, 2008, the Company had the following defined benefit and other post retirement benefit plans:

Supplemental Executive Retirement Plan. The Company has unfunded retirement agreements for 45 current and former senior executives, including one current director who was a former senior executive, and one former director who was a former senior executive. The retirement agreements provide for monthly benefits for ten years commencing at the later of the respective retirement dates of those executives or age 65. The benefits are accrued over the vesting period. Effective December 31, 2002, this plan was amended to preclude new participants.

Service Award Benefit Plan. The Company has an unfunded service award benefit plan, with a retroactive vesting period of five years. This plan is a severance pay plan as defined by the Employee Retirement Income Security Act of 1974, as amended, (ERISA)

50

and covers certain qualified employees. The plan provides participants, upon termination, with a guaranteed seven days pay for each year of employment subsequent to November 1, 1989. Effective January 1, 2002, no new participants were permitted under this plan. The Company will continue to incur interest costs related to this plan as the value of the previously earned benefits continues to increase.

OneSource Qualified Employee Retirement Plan. The Company acquired OneSource on November 14, 2007, which sponsored a funded, tax-qualified plan. Benefit accruals were frozen under this Plan several years prior to the acquisition. The fair values of the benefit obligations and net assets of the plan as of November 14, 2007 were $8.3 million and $4.8 million, respectively, resulting in a funded status at the date of acquisition of $3.5 million. At October 31, 2008, approximately 47% of assets were invested in equities or bonds and 53% in fixed income.

Death Benefit Plan. The Company s unfunded Death Benefit Plan covers certain qualified employees and, upon retirement on or after the employee s 62nd birthday, provides 50% of the death benefit that the employee was entitled to prior to retirement subject to a maximum of $150,000. Coverage during retirement continues until death for retired employees hired before September 2, 1980. On March 1, 2003, the post-retirement death benefit for any active employees hired after September 1, 1980 was eliminated, although active employees hired before September 1, 1980 who retire on or after their 62nd birthday will continue to be covered between retirement and death. For certain plan participants who retired before March 1, 2003, the post-retirement death benefit continues until the retired employees 70th birthday.

OneSource Post-Retirement Benefit Plan. At acquisition, OneSource had obligations to provide retiree medial and life insurance benefits to a small group of OneSource retirees. The deficit of the market value of One Source plan assets below the value of the assumed obligations was booked as a liability.

The liability for defined benefit and other post retirement benefit plans is included in the balance sheet line item called retirement plans and other non-current liabilities.

Benefit Obligation and Net Obligation Recognized in Financial Statements

(in thousands)	Defined Benefit Plans at October 31, 2008	2007	Post-Retirement Benefit Plan at October 31, 2008	2007
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 6,445**	$ 9,443	**$ 3,945**	$ 4,323
Service cost	**43**	57	**19**	25
Interest cost	**820**	371	**266**	241
Actuarial gain	**(1,428)**	(21)	**(495)**	(312)
Conversion to restricted stock units or deferred compensation		(1,840)		
OneSource acquisition	**8,308**		**571**	
Benefits and expenses paid	**(1,720)**	(1,565)	**(230)**	(332)
Benefit obligation at end of year	**$ 12,468**	$ 6,445	**$ 4,076**	$ 3,945

Change in Plan Assets								
Fair value of plan assets at beginning of year	**$**		$		**$**		$	
Actual return on plan assets		**(1,201)**						
Employer contributions		**1,820**		1,565		**230**		332
OneSource acquisition		**4,849**						
Benefits and expenses paid		**(1,720)**		(1,565)		**(230)**		(332)
Fair value of plan assets at end of year	**$**	**3,748**	$		**$**		$	
Unfunded status at end of year	**$**	**(8,720)**	$	(6,445)	**$**	**(4,076)**	$	(3,945)
Current liabilities		**(1,768)**				**(284)**		
Non-current liabilities		**(6,952)**		(6,445)		**(3,792)**		(3,945)
Net obligation	**$**	**(8,720)**	$	(6,445)	**$**	**(4,076)**	$	(3,945)
Amount recognized in Accumulated Other Comprehensive Income (AOCI)								
Total affecting retained earnings	**$**	**(7,229)**	$	(5,080)	**$**	**(5,495)**	$	(4,964)
Accumulated gain (loss) not affecting retained earnings		**(1,491)**		(1,365)		**1,419**		1,019)
Amount recognized in AOCI prior to tax effect	**$**	**(8,720)**	$	(6,445)	**$**	**(4,076)**	$	(3,945)

51

Table of Contents

Components of Net Period Benefit Cost Recognized in Consolidated Statement of Income

The components of net periodic benefit cost of the defined benefit and other post-retirement benefit plans for the years ended October 31, 2008, 2007 and 2006 were:

(in thousands)	**2008**	2007	2006
Defined Benefit Plans			
Service cost	**$ 43**	$ 57	$ 312
Interest	**820**	371	344
Expected return on assets	**(386)**		
Amortization of actuarial loss (gain)	**119**	(21)	16
Net expense	**$ 596**	$ 407	$ 672
Post-Retirement Benefit Plan			
Service cost	**$ 19**	$ 25	$ 30
Interest	**266**	241	247
Amortization of actuarial gain	**(99)**	(312)	(368)
Net expense (benefit)	**$ 186**	$ (46)	$ (91)

In fiscal year 2009, the Company expects to recognize, on a pre-tax basis, approximately $0.1 million of net actuarial gains as a component of net periodic benefit cost.

Assumptions

The weighted average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended October 31, 2008, 2007 and 2006 were:

	Defined Benefit Plans			Post-Retirement Benefit Plan		
	2008	2007	2006	**2008**	2007	2006
Assumptions to measure net periodic cost						
Discount rate	**6.00%**	6.00%	5.75%	**6.00%**	6.00%	5.75%
Rate of health care cost increase	**NA**	NA	NA	**6.00%**	NA	NA
Rate of compensation increase	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%

Rate of return on plan assets	**8.00%**	NA	NA	**NA**	NA	NA
Assumptions to measure obligation at year end						
Discount rate	**7.00%**	6.00%	6.00%	**7.00%**	6.00%	6.00%

The discount rates are based on Moody s Aa-rated long-term corporate bonds (*i.e.,* 20 years). Certain actuarial assumptions, such as assumed discount rate and long-term rate of return can have a significant effect on amounts reported for periodic cost of benefits. The discount rate also affects the respective benefit obligation amounts. For fiscal year 2008 benefit obligations, the discount rate was increased by 100 basis points to 7.00%. The increase in the discount rate is due to increases in the yield of high quality fixed income instruments during the measurement period.

The OneSource Qualified Employee Retirement Plan represents our benefit plan, which requires an estimate of the long-term rate of return on plan assets to measure benefit obligations. The expected long-term rate of return on plan assets represents the rate of earnings expected in the funds invested to provide for anticipated benefit payments. With input from the Company s investment advisors and actuaries, the Company has analyzed the expected rates of return on assets and determined that an estimated long-term rate of return of 8.0% is reasonable based on the current and expected asset allocations, on the plans historical investment performance and best estimates for future investment performance. The Company s asset managers regularly review actual asset allocations and periodically rebalance investments, when considered appropriate, to achieve optimal targeted earnings. The obligation attributable to medical benefits is small, as is the future obligation that varies with changes in compensation. Accordingly, changes in the health care trend assumption rate and the compensation increase assumption have an immaterial impact on measuring the obligation.

Estimated Future Benefit Payments

The following table illustrates estimated future benefit payments, which are calculated using the same assumptions used to measure the Company s benefit obligation and are based upon expected future service:

(in thousands)	Defined Benefit Plans	Post-Retirement Benefit Plan
2009	$ 2,494	$ 284
2010	1,179	283
2011	1,014	289
2012	1,002	298
2013	872	310
2014 through 2018	7,316	1,646

Deferred Compensation Plan

The Company has an unfunded Employee Deferred Compensation Plan available to executive, management, administrative and sales employees whose annualized base salary equals or exceeds $130,000. The plan allows employees to defer from 1% to 20% of their pre-tax compensation. At October 31, 2008, there were 48 active participants and 43 retired or terminated employees participating in the plan.

The Company also has an unfunded Director Deferred Compensation Plan adopted on October 23, 2006. For each plan year commencing with 2007, a

52

director may elect to defer receipt of all or any portion of the compensation that he or she would otherwise receive from ABM. At October 31, 2008, there were 4 active directors participating in the plan.

The deferred amount under both plans 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 interest rate is equal to 6% plus one half of the excess over 6%. Starting April 1, 2007 and October 1, 2007, interest on amounts in the Employee Deferred Compensation Plan and Director Deferred Compensation Plan, respectively, were capped at 120% of the long-term applicable federal rate (compounded quarterly). The average interest rates credited to the employee deferred compensation amounts for 2008, 2007 and 2006 were 5.09%, 6.39%, and 6.98%, respectively. The average interest rate credited to the Directors deferred compensation amounts for 2008 and 2007 were 5.09% and 7.03%, respectively.

The Company also has a funded Deferred Compensation Plan as a result of the OneSource acquisition. The plan is available to certain employees whose annualized salary equals or exceeds $80,000. The plan allows employees to defer from 1% to 30% of their pre-tax compensation. At October 31, 2008, there were 49 active participants and 4 retired or terminated employees participating in the plan. The Company makes matching contributions equal to 50% of the first 5% of each participant s contributions. During the year ended October 31, 2008, the Company made a matching contribution of $0.2 million.

OneSource established a rabbi trust in connection with the OneSource Deferred Compensation Plan. The value of the assets held by this trust, included in other assets on the Consolidated Balance Sheet, was $6.0 million at October 31, 2008. The assets held in the rabbi trust are not available for general corporate purposes.

Aggregate expense recognized under these deferred compensation plans for the years ended October 31, 2008, 2007 and 2006 were $0.5 million, $0.6 million and $0.6 million, respectively. Included in other long-term liabilities at October 31, 2008 and 2007 were $16.0 million and $10.2 million, respectively, for these accumulated obligations.

401(k) Plan

The Company has two 401(k) plans covering certain qualified employees, which provided for employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plans allow participants to make pre-tax contributions that, for certain groups, the Company matches at various percentages of employee contributions depending on the particular employee group. All amounts contributed to the plans are deposited into a trust fund administered by independent trustees. The Company made matching 401(k) contributions required by the 401(k) plans for 2008, 2007 and 2006 in the amounts of $5.9 million, $4.7 million and $5.8 million, respectively.

Pension Plans Under Collective Bargaining

Certain qualified employees of the Company are covered under union-sponsored multi-employer defined benefit plans. Contributions paid for these plans were $47.7 million, $37.1 million and $34.5 million in 2008, 2007 and 2006, respectively. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts.

7. LEASE COMMITMENTS AND RENTAL EXPENSE

The Company is contractually obligated to make future payments under non-cancelable operating lease agreements for various facilities, vehicles, and other equipment. As of October 31, 2008, future minimum lease commitments (excluding contingent rentals) under non-cancelable operating leases for the fiscal years ending October 31 are as follows:

(in thousands)

2009	$	37,720
2010		23,890
2011		17,934
2012		12,516
2013		9,788
Thereafter		17,336
Total minimum lease commitments	$	119,184

Rental expense for continuing operations for the years ended October 31, 2008, 2007 and 2006 was as follows:

(in thousands)		**2008**		2007		2006
Minimum rentals	**$**	**60,546**	$	52,366	$	54,729
Contingent rentals		**39,642**		39,126		35,806
	$	**100,188**	$	91,492	$	90,535

Contingent rentals are applicable to leases of parking lots and garages and are primarily based on percentages of the gross receipts or other financial parameters attributable to the related facilities.

8. OTHER COMMITMENTS

On September 29, 2006, the Company entered into a Master Professional Services Agreement (the Services Agreement) with International Business

53

Machines Corporation (IBM) that became effective October 1, 2006. Under the Services Agreement, IBM is responsible for substantially all of the Company s information technology infrastructure and support services. The base fee for these services was $116.6 million payable over the initial term of 7 years and 3 months. In 2007, the Company entered into additional agreements with IBM pursuant to which IBM provides assistance, support and post-implementation services relating to the upgrade of the Company s accounting systems and the implementation of a new payroll system and human resources information system. In connection with the OneSource acquisition in 2008, the Company entered into additional agreements with IBM to provide information technology systems integration and data center support services through 2009.

During the fourth quarter of 2008, the Company assessed the services provided by IBM to determine whether the services provided and the level of support was in compliance with IBM s obligations under the Services Agreement and consistent with the Company s strategic objectives. The Company determined that some or all of the services provided under the Services Agreement will likely be transitioned from IBM. In connection with this assessment, the Company wrote-off approximately $6.3 million of deferred costs related to the Services Agreement. To the extent that the services provided under the Services Agreement change, the remaining future contractual commitments for such services will change. The amount of any such change will depend on a number of factors and is not yet determined.

As of October 31, 2008, future commitments under the above agreements with IBM for the succeeding fiscal years were as follows:

(in thousands)		
2009	$	26,051
2010		17,609
2011		16,294
2012		15,834
2013		14,902
Thereafter		2,732
Total	$	93,422

9. CAPITAL STOCK

Treasury Stock

The Company has made repurchases of ABM common stock for the year ended October 31, 2006 of 1,428,500 shares at a cost of $26.0 million (an average price of $18.17 per share). No stock repurchases were made in 2007. At October 31, 2007, the then existing authorization for repurchases expired.

Stockholder Rights Plan

Under the Company s former Stockholder Rights Plan, preferred stock purchase rights were attached to certain shares of the Company s Common stock. Such rights were exercisable only under certain circumstances, and no rights had ever been exercised. Such rights expired on April 22, 2008.

10. SHARE-BASED COMPENSATION PLANS

Compensation expense and related income tax benefit related to the Company s share-based compensation plans for the years ended October 31, 2007, 2007 and 2006 were as follows:

(in thousands)	Years Ended October 31, **2008**	2007	2006
Share-based compensation expense recognized in selling, general and administrative expenses before income taxes	**$ 7,195**	$ 8,159	$ 3,244
Income tax benefit	**(2,764)**	(3,136)	(684)
Total share-based compensation expense after income taxes	**$ 4,431**	$ 5,023	$ 2,560

The Company has five share-based compensation plans, which are described below. The Company also has an employee stock purchase plan.

2006 Equity Incentive Plan

On May 2, 2006, the stockholders 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), which are further described below, all in advance of their expirations. 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 options outstanding 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, RSUs 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

54

Table of Contents

Section 162(m) (Section 162(m)). The status of the stock options, RSUs and performance shares granted under the 2006 Equity Plan as of October 31, 2008 are summarized below.

Stock Options

The nonqualified stock options issued under the 2006 Equity Plan become exercisable at a rate of 25% of the shares per year beginning one year after date of grant and terminate no later than seven years plus one month after date of grant.

The stock options activity in 2008 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, 2007	246	$ 21.49		
Granted	371	19.32		
Forfeited or expired	20	18.87		
Outstanding at October 31, 2008	597	$ 20.23	5.79	$
Vested and exercisable at October 31, 2008	92	$ 20.55	5.09	$

As of October 31, 2008, there was $1.8 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested stock options under the 2006 Equity Plan, which is expected to be recognized on a straight-line basis over a weighted-average vesting period of 1.54 years. The exercise prices of the outstanding and vested stock options exceeded the October 31, 2008 closing price of the Company s stock which resulting in zero aggregate intrinsic value.

Restricted Stock Units

RSUs granted to directors will be settled in shares of ABM common stock with respect to one-third of the underlying shares on the first, second and third anniversaries of the annual shareholders meeting, which in several cases vary from the anniversaries of the award. RSUs granted to persons other than directors will be settled in shares of ABM common stock with respect to 50% of the underlying shares on the second anniversary of the award and 50% on the fourth anniversary of the award.

The RSUs activity in 2008 is summarized below:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value per Share
Outstanding at October 31, 2007	342	$ 21.49
Granted	361	19.79
Issued	101	19.49
Forfeited	70	20.27
Outstanding at October 31, 2008	532	$ 20.88
Vested at October 31, 2008	94	$ 19.23

As of October 31, 2008, there was $7.6 million of total unrecognized compensation cost (net of estimated forfeitures) related to RSUs under the 2006 Equity Plan, which is expected to be recognized on a straight-line basis over a weighted-average vesting period of 1.49 years.

Performance Shares

Performance shares consist of a contingent right to acquire shares of ABM common stock based on performance targets adopted by the Compensation Committee; in these awards the number of performance shares will vest based on gross margin and revenue targets for either two year or three year periods ending October 31, 2008, October 31, 2009, or October 31, 2010. Assuming minimum criteria for both targets are met, vesting of 50% to 100% of the indicated shares will occur depending on the combination of gross margin and revenue achieved.

The performance shares activity in 2008 is summarized below:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value per Share
Outstanding at October 31, 2007	167	$ 20.31
Granted	278	19.24
Forfeited	13	19.61

Outstanding at October 31, 2008	432	$	19.64

As of October 31, 2008, there was $3.7 million of total unrecognized compensation cost (net of estimated forfeitures) related to performance shares which is expected to be recognized on a straight-line basis over a weighted average vesting period of 1.06 years. These costs are based on estimated achievement of performance criteria, and estimated costs will be reevaluated periodically.

Dividend Equivalent Rights

RSUs, restricted stock, and performance shares are credited with dividend equivalent rights which will be converted to RSUs, restricted stock or performance shares, as applicable, at the fair market value of ABM common stock on the date of payment and are subject to the same terms and conditions as the underlying award.

At October 31, 2008, 1,411,610 shares were available for award under the 2006 Equity Plan.

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 ten 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.

The Time-Vested Plan activity in 2008 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, 2007	1,700	$ 16.85		
Exercised	225	15.42		
Forfeited or expired	154	17.29		
Outstanding at October 31, 2008	1,321	$ 17.04	4.41	$ 1,261
Vested and Exercisable at October 31, 2008	1,059	$ 16.27	3.87	$ 1,247

As of October 31, 2008, there was $1.1 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested stock options under the Time-Vested Plan which is expected to be recognized on a straight-line basis over a weighted-average vesting period of 1.00 years.

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 that 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 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.

Share-based compensation expense in year ended October 31, 2007 included $4.0 million of expense attributable to the accelerated vesting of stock options under the Price-Vested Performance Stock Option Plans. When ABM s stock price achieved $22.50 and $23.00 target prices for ten trading days within a 30 consecutive trading day period during the first quarter of 2007, options for 481,638 shares vested in full. When ABM s stock price achieved $25.00 and $26.00 target prices for ten trading days within a 30 consecutive trading day period during the second quarter of 2007, options for 452,566 shares vested in full. When ABM s stock price achieved a $27.50 target price for ten trading days within a 30 consecutive trading day period during the third quarter of 2007, options for 36,938 shares vested in full.

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. There have been no grants under these plans since 2005.

The Price-Vested Plan s activity in 2008 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, 2007	1,768	$ 17.14		
Exercised	309	17.10		
Forfeited or expired	87	17.38		
Outstanding at October 31, 2008	1,372	$ 17.14	4.28	$ 288
Vested and Exercisable at October 31, 2008	909	$ 17.38	4.99	$ 230

As of October 31, 2008, there was $0.6 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested stock options under the Price-Vested Plans, which is expected to be recognized on a straight-line basis over a weighted-average vesting period of 1.08 years.

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.

Table of Contents

The Age-Vested Plan activity in 2008, 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, 2007	679	$ 12.68		
Exercised	93	7.76		
Forfeited or expired	53	15.42		
Outstanding at October 31, 2008	533	$ 13.27	9.23	$ 1,653
Vested and Exercisable at October 31, 2008	106	$ 10.37	1.07	$ 632

As of October 31, 2008, there was $0.7 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested stock options under the Age-Vested Plan which is expected to be recognized on a straight-lined basis over a weighted-average vesting period of 4.78 years.

The total intrinsic value of the 728,332, 1,137,864, and 563,614 shares exercised during the years ended October 31, 2008, 2007, and 2006, was $6.3 million, $12.5 million, and $4.4 million, respectively. The total fair value of shares vested during the years ended October 31, 2008, 2007 and 2006 was $3.1 million, $11.8 million and $2.4 million, respectively.

The Company settles employee stock option exercises, RSU conversions, and performance share issuances with newly issued common shares.

The Company estimates the fair value of each option award on the date of grant using the Black-Scholes option valuation model. There were no options granted under the Time Vested plan since 2006, no options granted under the Price Vested since 2005 and no options granted under the Executive Stock Option plan since 2004. The Company estimates forfeiture rates based on historical data and adjusts the rates periodically or as needed. The adjustment of the forfeiture rate may result in a cumulative adjustment in any period the forfeiture rate estimate is changed. During 2008, the Company adjusted its forfeiture rate to align the estimate with expected forfeitures, which resulted in additional share-based compensation expense of $0.4 million.

The assumptions used in the option valuation model for the years ended October 31, 2008, 2007 and 2006 are shown in the table below:

	2008	2007	2006
Expected life from the date of grant	**5.7 years**	5.2 years	6.2 years
Expected stock price volatility	**30.4%**	25.3%	26.0%
Expected dividend yield	**2.4%**	2.1%	2.1%
Risk-free interest rate	**3.2%**	4.3%	4.5%
Weighted average fair value of option grants	**$ 5.06**	$ 6.05	$ 5.37

The expected life for options granted under the 2006 Equity Plan is based on observed historical exercise patterns of the previously granted Time-Vested Plan options adjusted to reflect the change in vesting and expiration dates. The expected life for options granted in 2006 under the Time-Vested Plan is based on observed historical exercise patterns.

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.

Employee Stock Purchase Plan

On March 9, 2004, the stockholders of ABM approved the 2004 Employee Stock Purchase Plan under which an aggregate of 2,000,000 shares may be issued. Effective May 1, 2006, the purchase price became 95% (from 85%) of the fair market value of ABM common stock on the last trading day of the month. After that date, the plan is no longer considered compensatory and the value of the awards are 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.

The weighted average fair values of the purchase rights granted in 2008, 2007 and 2006 under the new plan were $1.05, $1.23, and $2.19, respectively. During 2008, 2007 and 2006, 222,648, 215,376, and 433,046 shares of stock were issued under the plan at a weighted average price of $20.00, $23.33, and $16.15, respectively. The aggregate purchases for 2008, 2007 and 2006 were $4.5 million, $5.0 million and $7.0 million,

Table of Contents

respectively. The share-based compensation cost recognized during 2006 associated with these shares was $0.8 million. At October 31, 2008, 429,479 shares remained unissued under the plan.

11. INCOME TAXES

The income taxes provision for continuing operations consists of the following components for each of the fiscal years ended October 31:

(in thousands)	2008	2007	2006
Current			
Federal	$ (254)	$ 19,369	$ 38,560
State	3,665	4,347	11,739
Foreign	18	33	39
Deferred			
Federal	26,022	3,532	5,304
State	1,893	(1,193)	1,853
Foreign	241		
	$ 31,585	$ 26,088	$ 57,495

The 2008 income tax provision consists primarily of deferred income tax expense related to the use of net operating losses and other tax attributes acquired from OneSource during 2008, which resulted in a reduction of current tax expense.

The 2007 income tax provision included a $0.9 million tax benefit in 2007 due mostly from the increase in the Company s net deferred tax assets that resulted primarily from the State of New York requirement to file combined returns effective in 2008. An additional $0.9 million tax benefit was recorded in 2007 mostly from the elimination of state tax liabilities for closed years. Income tax expense in 2007 had a further $0.6 million benefit primarily due to the inclusion of Work Opportunity Tax Credits attributable to 2006, but not recognizable in 2006 because the program had expired and was not extended until the first quarter of 2007.

The 2006 income tax provision included income tax expense of $34.9 million recorded in the fourth quarter of 2006 attributable to the World Trade Center (WTC) settlement gain. A $1.1 million income tax benefit, mostly from the reversal of state tax liabilities for closed years, was recorded in 2006. However, this was offset by $1.1 million in income tax expense primarily arising from the adjustment of the valuation allowance for state net operating loss carryforwards and the adjustment of the income tax liability accounts after filing the 2005 tax returns and amendments of prior year returns.

Income tax expense attributable to income from continuing operations differs from the amounts computed by applying the U.S. statutory rates to pre-tax income from continuing operations as a result of the following for the years ended October 31:

	2008	2007	2006
Statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal tax benefit	**5.1%**	5.1%	6.2%
Tax credits	**(5.8)%**	(6.8)%	(2.6)%
Tax liabilities no longer required	**(0.6)%**	(0.8)%	(0.7)%
Nondeductible expenses and other, net	**3.8%**	1.5%	2.6%
	37.5%	34.0%	40.5%

The 2008 effective tax rate is higher than the 2007 effective tax rate primarily due to nonrecurring favorable federal and state tax benefits recorded in 2007. These 2007 tax benefits included the benefits of state tax rate increases on the carrying value of the Company s state deferred tax assets and the extension of the Work Opportunity Tax Credit program. These incremental tax benefits did not recur in 2008.

The 2007 effective tax rate is lower than the 2006 effective tax rate due to a lower state tax rate and higher tax credits. The decrease in the state and local tax rate in 2007 was primarily due to higher effective state tax rates in 2006 resulting from the higher level of state income tax rates in the jurisdictions where the WTC settlement gain was subject to state income taxation. The Texas requirement to file a combined gross margin tax return in 2007 partially offset that impact. The increased tax credits in 2007 is due to the resumption of processing of tax credits as a result of the extension of the Work Opportunity Tax Credit program on December 20, 2006.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and

58

deferred tax liabilities at October 31 are presented below:

(in thousands)		2008		2007
Deferred tax assets:				
Self-insurance claims (net of recoverable)	$	**111,848**	$	80,897
Deferred and other compensation		**26,474**		20,925
Accounts receivable allowances		**5,256**		2,805
Settlement liabilities		**870**		922
State taxes		**482**		751
Federal net operating loss carryforwards		**33,729**		
State net operating loss carryforwards		**8,451**		1,795
Tax credits		**7,256**		1,069
Other		**17,868**		4,846
		212,234		114,010
Valuation allowance		**(6,800)**		(1,749)
Total gross deferred tax assets		**205,434**		112,261
Deferred tax liabilities:				
Property, plant and equipment		**(4,347)**		
Goodwill and other acquired intangibles		**(54,266)**		(26,345)
Deferred software development costs		**(654)**		(2,190)
Total gross deferred tax liabilities		**(59,267)**		(28,535)
Net deferred tax assets	$	**146,167**	$	83,726

At October 31, 2008, the Company s net deferred tax assets included a tax benefit from federal net operating loss carryforwards of $96.4 million. The federal net operating loss carryforwards will expire between 2014 and 2027 and the state net operating loss carryforwards will expire between the years 2009 and 2028.

The Company periodically reviews its deferred tax assets for recoverability. The valuation allowance represents the amount of tax benefits related to state net operating loss carryforwards which management believes are not likely to be realized. The Company believes that the gross deferred tax assets are more likely than not to be realizable based on estimates of future taxable income.

Changes to the deferred tax asset valuation allowance for the years ended October 31 are as follows:

(in thousands)	2008	2007
Valuation allowance at the beginning of the year	**$ 1,749**	$ 1,461
Acquisition of OneSource	**5,160**	
Other, net	**(109)**	288
Valuation allowance at the end of the year	**$ 6,800**	$ 1,749

In 2008 and 2007, $1.0 million and $0.3 million, respectively, of the increase in valuation allowance was charged to income tax expense for deferred tax assets that were not expected to be ultimately realized. Further, in 2008 the valuation allowance decreased (through a reduction of the tax provision) by $1.1 million for state net operating losses that became more-likely-than-not realizable based on updated assessments of future taxable income and increased $5.2 million (through an increase to goodwill) as a result of the interactions of tax positions associated with the acquisition of the OneSource.

As disclosed in Note 1, we adopted the provisions of FIN 48 as of November 1, 2007. At October 31, 2008, we had unrecognized tax benefits of $117.7 million of which $1.3 million, if recognized, would impact the effective tax rate. The remainder of the balance, if recognized prior to the Company s planned adoption of SFAS No. 141R, would be recorded as an adjustment to goodwill and would not impact the effective tax rate but would impact the payment of cash to the taxing authorities. The Company s policy to include interest and penalties related to unrecognized tax benefits in income tax expense did not change upon the adoption of FIN 48. As of October 31, 2008, the Company had accrued interest and penalties related to uncertain tax positions of $0.4 million on the Company s balance sheet. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	2008
Balance as of November 1, 2007	**$ 1,546**
Additions related to Acquisition of OneSource	**116,361**
Additions for tax positions related to the current year	**16**
Additions for tax positions of prior years	**216**
Reductions for tax positions of prior years	**(181)**
Settlements with taxing authorities	**(281)**
Balance as of October 31, 2008	**$ 117,677**

The Company s major tax jurisdiction is the United States and its U.S. federal income tax return has been examined by the tax authorities through October 31, 2004. The Company does business in all 50 states, significantly in California, Texas and New York, as well as Puerto Rico and Canada. In major state jurisdictions, the tax years 2004-2008 remain open and subject to examination by the appropriate tax authorities. The Company is currently being examined by Illinois, Minnesota, Arizona and Puerto Rico.

12. ACQUISITIONS

OneSource

On November 14, 2007, ABM acquired OneSource for an aggregate purchase price of $390.5 million, including payment of its $21.5 million line of credit and direct acquisition costs of $4.0 million. OneSource provides facilities services including janitorial, landscaping, general repair and maintenance and other specialized services, for commercial, industrial, institutional and retail facilities, primarily in the United States.

Table of Contents

OneSource s operations are included in the Company s Janitorial segment from the date of acquisition. The OneSource acquisition was accounted for using the purchase method of accounting.

Under the purchase method of accounting, the purchase price of OneSource was allocated to the underlying assets acquired, including identified intangible assets, and liabilities assumed based on their respective estimated fair values as of November 14, 2007. The excess of the cost of the acquisition over the amounts assigned to the net assets acquired was allocated to goodwill. The amount allocated to goodwill is reflective of the Company s identification of buyer-specific synergies that the Company anticipates will be realized by, among other things, reducing duplicative positions and back office functions, consolidating facilities and reducing professional fees and other services.

The purchase price and related allocations are summarized as follows:

(in thousands)		
Paid to OneSource shareholders	$	365,000
Payment of OneSource s pre-existing line of credit		21,474
Acquisition costs		4,017
Total cash consideration	$	390,491
Allocated to:		
Trade accounts receivable		94,689
Other current assets		12,223
Insurance recoverables		19,118
Insurance deposits		42,502
Property, plant, and equipment		9,510
Identifiable intangible assets		48,700
Net deferred income tax assets		74,721
Other non-current assets		10,389
Current liabilities		(68,674)
Insurance claims		(101,248)
Other non-current liabilities		(21,026)
Minority interest		(5,384)
Goodwill		274,971
	$	390,491

The following unaudited pro forma financial information shows the combined results of continuing operations of the Company, including OneSource, as if the acquisition had occurred as of the beginning of the periods presented. The unaudited pro forma financial information is not intended to represent or be indicative of the Company s consolidated financial results of continuing operations that would have been reported had the business combination been completed as of the beginning of the periods presented and should not be taken as indicative of the Company s future consolidated results of continuing operations.

(in thousands, except per share data)	Years Ended October 31, **2008**		2007	
Revenues	**$**	**3,653,452**	$	3,544,722
Income from continuing operations	**$**	**52,343**	$	34,557
Income from continuing operations per common share				
Basic	**$**	**1.04**	$	0.70
Diluted	**$**	**1.02**	$	0.68

OneSource owned a controlling 50% of Southern Management Company (Southern Management), a facility services company based in Chattanooga, Tennessee. On January 4, 2008, the Company acquired the remaining equity of Southern Management for $24.4 million, including direct acquisition costs of $0.4 million. Of the $24.4 million purchase price, $18.7 million was allocated to goodwill and the remaining $5.7 million eliminated the minority interest. An additional $2.9 million was paid in March 2008 to the other shareholders of Southern Management with respect to undistributed 2007 earnings. This amount was allocated to goodwill. Southern Management s operations are included in the Janitorial segment.

Other Acquisitions

Other acquisitions have also 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.

Total additional consideration during the year ended October 31, 2008 for other earlier acquisitions was $5.7 million, which includes $0.6 million for common stock issued, which represented contingent amounts based on subsequent performance.

The Company made the following acquisition during the year ended October 31, 2007:

On April 2, 2007, the Company acquired substantially all of the operating assets of HealthCare Parking Systems of America, Inc., a provider of healthcare-related parking services based in Tampa, Florida, for $7.1 million in cash. In addition, $4.7 million is expected to be paid based on the financial performance of the acquired business over the three years following the acquisition, of which $1.7 million was paid in 2008. If certain growth thresholds are achieved, additional payments will be required in years four and five. HealthCare Parking Systems of America, Inc. was a provider of premium parking management services exclusively to hospitals, health centers, and medical office buildings across the United States. Of the total initial payment, $5.2 million was allocated to customer relationship intangible assets (amortized over a useful life of 14 years under the sum-of-the-year-digits method), $0.8 million to trademarks intangible assets (amortized over a useful life of 10 years under the straight-line method), $1.0 million to goodwill, and $0.1 million to other assets.

The Company made the following acquisitions during the year ended October 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 $3.6 million in cash. In 2007, a contingent payment of $0.6 million was made, bringing the total purchase price paid to date to $4.2 million. Additional cash consideration of approximately $1.8 million is expected to be paid based on the financial performance of the acquired business over the next three years, of which $0.7 million was paid in 2008. 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, $3.0 million was allocated to customer relationship intangible assets (amortized over a useful life of 14 years under the sum-of-the-year-digits method), $0.5 million to goodwill, and $0.1 million to other assets. The contingent payment was allocated to goodwill.

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 $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. 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 (amortized over a useful life of five years under the sum-of-the-year-digits method), and $0.2 million to goodwill. The final contingent payment of $0.4 million made in 2006 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 $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. 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 (amortized over a useful life of six years under the sum-of-the-year-digits method). The final contingent payment of $0.3 million made in 2006 was allocated to goodwill.

13. DISCONTINUED OPERATIONS

On October 31, 2008, the Company completed the sale of substantially all of the assets of the Company s Lighting division, excluding accounts receivable and certain other assets, to Sylvania Lighting Services Corp (Sylvania). The assets sold included customer contracts, inventory and other assets, as well as rights to the name Amtech Lighting. The consideration received in connection with such sale was approximately $34.0 million in cash, which included certain adjustments, payment to the Company of $0.6 million pursuant to a transition services agreement and the assumption of certain liabilities under certain contracts and leases relating to the period after the closing. Further post-closing adjustments may be made. In connection with the sale, the Company recorded a loss of approximately $3.5 million including income tax expense of $1.0 million. The assets and liabilities associated with the Lighting division have been classified on the Company s Consolidated Balance Sheets as assets and liabilities of discontinued operations, as of October 31, 2008, and have been reclassified as of October 31, 2007 for comparative purposes. The results of operations of Lighting for the years ended October 31, 2008, 2007 and 2006 are included in the Company s Consolidated Statements of Income as Income (loss) from discontinued operations, net of taxes. In accordance with Emerging Issues Task Force (EITF) Issue No. 87-24 Allocation of Interest to Discontinued Operations, general corporate overhead expenses of $1.3 million, $1.7 million and $0.5 million for the years ended October 31, 2008, 2007 and 2006, respectively, which were previously included in the operating results of the Lighting division have been reallocated to the Corporate segment. All corresponding prior year periods presented in the Company s Consolidated Financial Statements and the accompanying notes have been reclassified to reflect the discontinued operations presentation.

61

The carrying amounts of the major classes of assets and liabilities of the Lighting division included in discontinued operations are as follows:

	October 31, 2008		October 31, 2007	
Trade accounts receivable, net	**$**	**21,735**	$	21,298
Inventories				19,517
Prepaid expenses and other current assets		**12,773**		17,356
Current assets of discontinued operations		**34,508**		58,171
Long-term receivables and other		**11,205**		27,530
Goodwill				18,003
Non-current assets of discontinued operations		**11,205**		45,533
Trade accounts payable		**7,053**		8,325
Accrued liabilities:				
Compensation		**1,366**		2,098
Taxes other than income		**767**		614
Other		**896**		6,623
Current liabilities of discontinued operations		**10,082**		17,660
Other non-current liabilities	**$**		$	4,175

The summarized operating results of the Company s discontinued Lighting division for the years ended October 31, 2008, 2007 and 2006 are as follows:

(in thousands)	Years Ended October 31, 2008		2007		2006	
Revenues	**$**	**114,904**	$	112,377	$	113,014
Goodwill impairment		**4,500**				

Income (loss) before income taxes		**(4,052)**		3,052		1,922
Provision (benefit) for income taxes		**(276)**		1,259		800
Income (loss) from discontinued operations, net of taxes	**$**	**(3,776)**	$	1,793	$	1,122

During the quarter ended April 30, 2008, in response to objective evidence about the implied value of goodwill relating to the Company s Lighting division, the Company performed an assessment of goodwill for impairment. The goodwill in the Company s Lighting division was determined to be impaired and a non-cash, partially tax-deductible goodwill impairment charge of $4.5 million was recorded on April 30, 2008, which is included in discontinued operations in the accompanying consolidated statements of income for the year ended October 31, 2008.

14. TRANSITION COSTS

In March 2007, the Company s Board of Directors approved the establishment of a Shared Services Center in Houston, Texas to consolidate certain back office operations; the relocation of ABM Janitorial headquarters to Houston and the Company s other business units to southern California; and the relocation of the Company s corporate headquarters to New York City in 2008 (collectively, the transition). The transition is intended to reduce costs and improve efficiency of the Company s operations and is planned for completion by 2011. The severance costs have been recognized in selling general and administrative expense. No other material costs associated with the transition are planned.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to the short-term maturities of our cash, cash equivalents, receivables and payables, the carrying value of these financial instruments approximates their fair values. Due to variable interest rates, the fair value of outstanding borrowings under the Company s $450.0 million line of credit approximates its carrying value of $230.0 million. (See Note 5, Line of Credit Facility, for additional information on our debt instruments.)

Other financial instruments included in other investments and long-term receivables have no quoted market prices and, accordingly, a reasonable estimate of fair market value could not be made without incurring excessive costs. However, the Company believes by reference to stated interest rates and security held that the fair value of the assets would not differ significantly from the carrying value.

16. AUCTION RATE SECURITIES

As of October 31, 2008, the Company held investments in auction rate securities having an aggregate original principal amount of $25.0 million. At October 31, 2008, the estimated fair value of these securities was $19.0 million. Auction rate securities are debt instruments with long-term nominal maturities (typically 20 to 50 years), for which the interest rate is reset through Dutch auctions approximately every 30 days. However, due to events in the U.S. credit markets, auctions for these securities began to fail commencing in August 2007 and continued to fail through October 31, 2008. The Company continues to receive the scheduled interest payments from the issuers of the securities. The Company has estimated the fair values of these securities utilizing discounted cash flow valuation models as of October 31, 2008. These analyses consider, among other factors, the underlying collateral, the final maturity and assumptions as to when, if ever, the security might be re-financed by the issuer or have a successful auction. Because there is no assurance that auctions for these securities will be successful in the near future, the Company has classified the auction rate securities as long-term investments on the accompanying Consolidated Balance Sheet. The Company intends and

believes it has the ability to hold these securities until their value recovers or the securities settle.

For the year ended October 31, 2008, unrealized losses of $6.0 million ($3.6 million net of tax) were charged to accumulated other comprehensive loss as a result of declines in the fair value of the Company s auction rate securities. Any future fluctuation in the fair value related to these securities that the Company deems to be temporary, including any recoveries of previous unrealized losses, would be recorded to accumulated other comprehensive loss, net of taxes. If at any time in the future a decline in value is other than temporary, the Company will record a charge to earnings in the period of determination. The Company intends and believes it has the ability to hold these securities until their value recovers and believes that all of the unrealized losses are temporary in nature.

17. CONTINGENCIES

ABM and certain of its subsidiaries have been named defendants in certain proceedings arising in the ordinary course of business. 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. Legal costs associated with loss contingencies are expensed as incurred.

The Company is a defendant in several purported class action lawsuits related to alleged violations of federal or California wage-and-hour laws. The named plaintiffs in these lawsuits are current or former employees of ABM subsidiaries who allege, among other things, that they were required to work off the clock, were not paid for all overtime, were not provided work breaks or other benefits, and/or that they received pay stubs not conforming to California law. In all cases, the plaintiffs generally seek unspecified monetary damages, injunctive relief or both. The Company believes it has meritorious defenses to these claims and intends to continue to vigorously defend itself.

The Company accrues amounts it believes are adequate to address any liabilities related to litigation and arbitration proceedings, and other contingencies that the Company believes will result in a probable loss. However, the ultimate resolution of such matters is always uncertain. It is possible that any such 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 October 31, 2008 was $5.1 million.

18. GUARANTEES AND INDEMNIFICATION AGREEMENTS

The Company has applied the measurement and disclosure provisions of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others, (FIN 45) agreements that contain guarantee and certain indemnification clauses. FIN 45 requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. As of October 31, 2008 and 2007, the Company did not have any material guarantees that were issued or modified subsequent to October 31, 2002.

However, 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 may not be 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

63

Table of Contents

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.

19. SEGMENT INFORMATION

Prior to the sale of our Lighting division, the Company was previously organized into five separate reportable operating segments. In accordance with SFAS No. 131, Janitorial, Parking, Security, Engineering and Lighting were reportable segments. In connection with the discontinued operation of the Lighting division, the operating results of Lighting are classified as discontinued operations and, as such, are not reflected in the tables below.

The unallocated corporate expenses include the $22.8 million, $1.8 million, and $14.1 million reduction of insurance reserves in 2008, 2007 and 2006, respectively. (See Note 2, Insurance.) While virtually all insurance claims arise from the operating segments, these adjustments were recorded as unallocated corporate expense. Had the Company allocated the insurance charge among the segments, the reported pre-tax operating profits of the segments, as a whole, would have been increased by $22.8 million, $1.8 million, and $14.1 million for 2008, 2007 and 2006, respectively, with an equal and offsetting change to unallocated corporate expenses and, therefore, no change to consolidated pre-tax earnings. This methodology would also apply to the gains on the settlement of the WTC insurance claims of $66.0 million in 2006, which were not allocated to the segments.

The operating results of the continuing reportable segments (Janitorial, Parking, Security, and Engineering) were as follows:

64

Table of Contents

(In thousands)	Janitorial	Parking	Security	Engineering	Corporate	**Total**
Year ended October 31, 2008						
Revenues	$ 2,492,270	$ 475,349	$ 333,525	$ 319,847	$ 2,599	**$ 3,623,590**
Operating profit	$ 118,538	$ 19,438	$ 7,723	$ 19,129	$ (65,319)	**$ 99,509**
Interest expense					(15,193)	**(15,193)**
Income (loss) from continuing operations before income taxes	$ 118,538	$ 19,438	$ 7,723	$ 19,129	$ (80,512)	**$ 84,316**
Identifiable assets	$ 1,030,761	$ 102,740	$ 107,203	$ 64,588	$ 198,908	**$ 1,504,200(*)**
Depreciation expense	$ 9,744	$ 1,541	$ 260	$ 103	$ 4,692	**$ 16,340**
Intangible amortization expense	$ 8,711	$ 1,100	$ 1,924	$	$	**$ 11,735**
Capital expenditures	$ 10,266	$ 2,058	$ 972	$ 114	$ 20,653	**$ 34,063**
Year ended October 31, 2007						
Revenues	$ 1,621,557	$ 454,964	$ 321,544	$ 301,600	$ 6,440	**$ 2,706,105**
Operating profit	$ 87,471	$ 20,819	$ 4,755	$ 15,600	$ (51,457)	**$ 77,188**
Interest expense					(453)	**(453)**
Income (loss) from continuing operations before income taxes	$ 87,471	$ 20,819	$ 4,755	$ 15,600	$ (51,910)	**$ 76,735**

Identifiable assets	$	416,127	$	100,690	$	103,753	$	65,007	$	331,392	**$**	**1,016,969**(*)
Depreciation expense	$	5,159	$	1,370	$	275	$	96	$	4,740	**$**	**11,640**
Intangible amortization expense	$	2,623	$	820	$	2,122	$		$		**$**	**5,565**
Capital expenditures	$	6,345	$	2,761	$	215	$	60	$	10,803	**$**	**20,184**
Year ended October 31, 2006												
Revenues	$	1,563,756	$	419,730	$	307,851	$	285,241	$	2,773	**$**	**2,579,351**
Gain on insurance claim										66,000		**66,000**
Total income	$	1,563,756	$	419,730	$	307,851	$	285,241	$	68,773	**$**	**2,645,351**
Operating profit	$	81,578	$	13,658	$	4,329	$	16,736	$	26,012	**$**	**142,313**
Interest expense										(494)		**(494)**
Income from continuing operations before income taxes	$	81,578	$	13,658	$	4,329	$	16,736	$	25,518	**$**	**141,819**
Identifiable assets	$	416,097	$	86,541	$	104,174	$	69,467	$	293,325	**$**	**969,604**(*)
Depreciation expense	$	5,172	$	1,336	$	1,230	$	67	$	5,833	**$**	**13,638**
Intangible amortization expense	$	3,030	$	464	$	2,270	$		$		**$**	**5,764**
Capital expenditures	$	4,379	$	2,558	$	180	$	297	$	4,648	**$**	**12,062**

* Excludes assets of discontinued operations of $45.7 million, $103.7 million and $99.9 million as of October 31, 2008, 2007 and 2006, respectively.

20. SUBSEQUENT EVENT

In 2005, the Company filed a claim in arbitration against its former third-party administrator of workers compensation claims for damages related to the administrator s management of certain workers compensation claims. In November 2008, the Company and this third party administrator settled the claim for approximately $9.8 million. Such benefit is expected to be recorded in the first half of fiscal year 2009 upon receipt of the settlement.

Table of Contents

21. QUARTERLY INFORMATION (UNAUDITED)

(In thousands, except per share amounts)	Fiscal Quarter First	Second	Third	Fourth	Year
Year ended October 31, 2008					
Revenues	$ 887,792	$ 906,349	$ 923,667	$ 905,782	**$ 3,623,590**
Gross profit	$ 83,839	$ 100,199	$ 104,780	$ 110,076	**$ 398,894**
Income from continuing operations	$ 6,267	$ 15,302	$ 16,344	$ 14,818	**$ 52,731**
Income (loss) from discontinued operations	97	(4,230)	68	(3,232)	**(7,297)**
Net income	$ 6,364	$ 11,072	$ 16,412	$ 11,586	**$ 45,434**
Net income per common share Basic					
Income from continuing operations	$ 0.13	$ 0.30	$ 0.32	$ 0.29	**$ 1.04**
Loss from discontinued operations		(0.08)		(0.06)	**(0.14)**
Net income per common share Basic	$ 0.13	$ 0.22	$ 0.32	$ 0.23	**$ 0.90**
Net income per common share Diluted					
Income from continuing operations	$ 0.13	$ 0.30	$ 0.32	$ 0.28	**$ 1.03**
Loss from discontinued operations		(0.08)		(0.07)	**(0.15)**
Net income per common share Diluted	$ 0.13	$ 0.22	$ 0.32	$ 0.21	**$ 0.88**
Year ended October 31, 2007					
Revenues	$ 666,500	$ 663,519	$ 684,644	$ 691,442	**$ 2,706,105**
Gross profit	$ 66,162	$ 71,749	$ 63,829	$ 74,671	**$ 276,411**
Income from continuing operations	$ 8,050	$ 16,148	$ 11,637	$ 14,812	**$ 50,647**

Income from discontinued operations		654		574		362		203		**1,793**
Net income	$	8,704	$	16,722	$	11,999	$	15,015	**$**	**52,440**
Net income per common share Basic										
Income from continuing operations	$	0.17	$	0.33	$	0.23	$	0.29	**$**	**1.02**
Income from discontinued operations		0.01		0.01		0.01		0.01		**0.04**
Net income per common share Basic	$	0.18	$	0.34	$	0.24	$	0.30	**$**	**1.06**
Net income per common share Diluted										
Income from continuing operations	$	0.17	$	0.32	$	0.22	$	0.29	**$**	**1.00**
Income from discontinued operations		0.01		0.01		0.01		0.01		**0.04**
Net income per common share Diluted	$	0.18	$	0.33	$	0.23	$	0.30	**$**	**1.04**

66

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures. As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Exchange Act, the Company s principal executive officer and principal financial officer evaluated the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K/A. Based on this evaluation, these officers concluded that as of the end of the period covered by this Annual Report on Form 10-K/A, these disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in reports it 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 Securities and Exchange Commission and include controls and procedures 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. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

b. Management s Report on Internal Control Over Financial Reporting. The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) for the Company. The Company s internal control over financial reporting is designed to provide reasonable assurance, not absolute assurance, regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of October 31, 2008, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on that assessment and those criteria, the Company s management concluded that the Company s internal control over financial reporting was effective as of October 31, 2008. The Company s independent registered public accounting firm has issued an attestation report on the Company s internal control over financial reporting, which is included in Item 8 of this Annual Report on Form 10-K/A under the caption entitled Report of Independent Registered Public Accounting Firm.

c. Changes in Internal Control Over Financial Reporting. The Company is migrating its financial and payroll systems to a new consolidated financial and payroll platform as part of an on-going development of these systems which is expected to continue during fiscal 2009.

Except as described above, there were no changes in the Company s internal control over financial reporting during the quarter ended October 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

d. Certificates. Certificates with respect to disclosure controls and procedures and internal control over financial reporting under Rules 13a-14(a) or 15d-14(a) of the Exchange Act are attached as exhibits to this Annual Report on Form 10-K/A.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers. The information required by this item regarding ABM s executive officers is included in Part I under Executive Officers of the Registrant.

Directors. The information required by this item regarding ABM s directors is incorporated by reference from the information set forth under the caption Proposal 1 Election of Directors in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

Audit Committee. The information required by this item regarding ABM s Audit Committee and its members and audit committee financial expert is incorporated by reference from the information set forth under the caption Corporate Governance Audit Committee in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance. The information required by this item regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information set forth under the caption Principal Stockholders Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

Code of Business Conduct. The Company has adopted and posted on its Website (www.abm.com) the ABM Code of Business Conduct that applies to all directors, officers and employees of the Company, including the Company s Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer. If any amendments are made to the Code of Business Conduct or if any waiver, including any implicit waiver, from a provision of the Code of Business Conduct is granted to the Company s Principal Executive Officer, Principal Financial Officer or Principal Accounting Officer, the Company will disclose the nature of such amendment or waiver on its Website at the address specified above.

Annual Certification to New York Stock Exchange. ABM s common stock is listed on the New York Stock Exchange. As a result, ABM s Chief Executive Officer is required to make and he has made on March 25, 2008, a CEO s Annual Certification to the New York Stock Exchange in accordance with Section 303A.12 of the New York Stock Exchange Listed Company Manual stating that he was not aware of any violations by the Company of the New York Stock Exchange corporate governance listing standards.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item with regard to officer and director compensation is incorporated by reference from the information set forth under the caption Officers and Directors Compensation contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders. The information required by this item with respect to compensation committee interlocks and insider participation is incorporated by reference from the information so titled under the caption Corporate Governance contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference from the information set forth under the caption Security Ownership of Management and Certain Beneficial Owners contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

Table of Contents

Equity Compensation Plan Information

The following table provides information regarding the Company s equity compensation plans as of October 31, 2008.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	3,821,795(1)	$ 17.05	1,841,089(2)
Equity compensation plans not approved by security holders			
Total	3,821,795	$ 17.05	1,841,089

(1) Does not include outstanding restricted stock units or performance shares.

(2) Includes 429,479 shares available for issuance under the Employee Stock Purchase Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item with respect to certain relationships and related transactions is incorporated by reference from the information so titled under the caption Officers and Directors Compensation contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders. The information required by this item with respect to director independence is incorporated by reference from the information set forth under the caption Corporate Governance contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the information set forth under the caption Audit Related Matters contained in the Proxy Statement to be used by ABM in connection with its 2009 Annual Meeting of Stockholders.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Form 10-K/A:

1. Consolidated Financial Statements of ABM Industries Incorporated and Subsidiaries:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets October 31, 2008 and 2007

Consolidated Statements of Income Years ended October 31, 2008, 2007 and 2006

Consolidated Statements of Stockholders Equity and Comprehensive Income Years ended October 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows Years ended October 31, 2008, 2007 and 2006

Notes to the Consolidated Financial Statements.

2. Consolidated Financial Statement Schedule of ABM Industries Incorporated and Subsidiaries:

Schedule II Consolidated Valuation Accounts Years ended October 31, 2008, 2007 and 2006.

All other schedules are omitted because they are not applicable or because the required information is included in the consolidated financial statements or the notes thereto.

(b) Exhibits:

See Exhibit Index.

(c) Additional Financial Statements:

The individual financial statements of the registrant s subsidiaries have been omitted since the registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly owned subsidiaries.

70

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Henrik C. Slipsager

Henrik C. Slipsager
President & Chief Executive Officer and Director
January 20, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Henrik C. Slipsager

Henrik C. Slipsager
President & Chief Executive Officer and Director
(Principal Executive Officer)
January 20, 2009

/s/ James S. Lusk

James S. Lusk
Executive Vice President &
Chief Financial Officer
(Principal Financial Officer)
January 20, 2009

/s/ Dan T. Bane

Dan T. Bane, Director
January 20, 2009

/s/ Linda Chavez

Linda Chavez, Director
January 20, 2009

/s/ Anthony G. Fernandes

Anthony G. Fernandes, Director
January 20, 2009

/s/ Luke S. Helms

Luke S. Helms, Director
January 20, 2009

/s/ Maryellen C. Herringer

Maryellen C. Herringer
Chairman of the Board and Director
January 20, 2009

/s/ Henry L. Kotkins, Jr.

Henry L. Kotkins, Jr., Director
January 20, 2009

/s/ Theodore Rosenberg

Theodore Rosenberg, Director
January 20, 2009

/s/ William S. Steele

William S. Steele, Director
January 20, 2009

/s/ Joseph F. Yospe

Joseph F. Yospe
Senior Vice President and Controller
(Principal Accounting Officer)
January 20, 2009

Table of Contents

Schedule II

CONSOLIDATED VALUATION ACCOUNTS

(in thousands)	Balance Beginning of Year	Acquisitions	Charges to Costs and Expenses	Write-offs Net of Recoveries	Balance End of Year
Allowance for doubtful accounts					
Years ended October 31,					
2008	$ 2,827	$ 2,147	$ 4,954	$ (1,280)	$ 8,648
2007	3,577		1,295	(2,045)	2,827
2006	5,305		663	(2,391)	3,577

(In thousands)	Balance Beginning of Year	Acquisitions	Charges to Costs and Expenses	Write-offs Net of Recoveries	Balance End of Year
Sales allowance					
Years ended October 31,					
2008	$ 3,552	$ 206	$ 16,897	$ (16,837)	$ 3,818
2007	3,674		23,344	(23,466)	3,552
2006	1,664		32,843	(30,833)	3,674

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated October 7, 2007, among OneSource Services, Inc., ABM Industries Incorporated and OCo Merger Sub LLC	8-K	001-08929	2.1	October 9, 2007
2.2	Asset Purchase and Sale Agreement, dated as of August 29, 2008 by and among ABM Industries Incorporated, a Delaware corporation, Amtech Lighting Services, Amtech Lighting Services of the Midwest and Amtech Lighting and Electrical Services, each of which are California corporations, and Sylvania Lighting Services Corp., a Delaware corporation	8-K	001-08929	2.1	September 5, 2008
3.1	Restated Certificate of Incorporation of ABM Industries Incorporated, dated November 25, 2003	10-K	001-08929	3.1	January 14, 2004
3.2	Bylaws, as amended September 3, 2008	10-Q	001-08929	3.2	September 8, 2008
10.1	Master Professional Services Agreement with International Business Machines (IBM) effective October 1, 2006	10-K	001-08929	10.36	December 22, 2006
10.2	Credit Agreement, dated as of November 14, 2007, among ABM Industries Incorporated, various financial institutions and Bank of America, N.A., as Administrative Agent	8-K	001-08929	10.1	November 15, 2007
10.3*	Form of Indemnification Agreement for Directors	10-K	001-08929	10.13	January 14, 2005
10.4*	ABM Executive Retiree Healthcare and Dental Plan	10-K	001-08929	10.17	January 14, 2005
10.5*	Director Retirement Plan Distribution Election Form, as revised June 16, 2006	10-Q	001-08929	10.1	September 8, 2006
10.6*	Arrangements With Non-Employee Directors	10-Q	001-08929	10.2	September 8, 2006
10.7*	Director Stock Ownership and Retention Guidelines	10-Q	001-08929	10.3	September 8, 2006
10.8*	ABM Executive Officer Incentive Plan	8-K	001-08929	99.2	May 5, 2006
10.9*	Form of Non-Qualified Stock Option Agreement 2006 Equity Plan	10-K	001-08929	10.30	December 22, 2006
10.10*	Form of Restricted Stock Agreement 2006 Equity Plan	10-K	001-08929	10.31	December 22, 2006
10.11*	Form of Restricted Stock Unit Agreement 2006 Equity Plan	10-K	001-08929	10.32	December 22, 2006
10.12*		10-K	001-08929	10.33	

	Form of Performance Share Agreement 2006 Equity Plan				December 22, 2006
10.13*	Executive Stock Option Plan (aka Age-Vested Career Stock Option Plan), as amended and restated as of December 9, 2008	8-K	001-08929	10.1	December 15, 2008
10.14*	Time-Vested Incentive Stock Option Plan, as amended and restated as of September 4, 2007	10-Q	001-08929	10.2	September 10, 2007
10.15*	1996 Price-Vested Performance Stock Option Plan, as amended and restated as of September 4, 2007	10-Q	001-08929	10.3	September 10, 2007
10.16*	2002 Price-Vested Performance Stock Option Plan, as amended and restated as of September 4, 2007	10-Q	001-08929	10.4	September 10, 2007
10.17*	Deferred Compensation Plan, amended and restated, March 13, 2008				
10.18*	Form of Restricted Stock Agreement 2006 Equity Incentive Plan Annual Grants	10-Q	001-08929	10.1	March 10, 2008

Table of Contents

		Incorporated by Reference			
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
10.19*	Deferred Compensation Plan for Non-Employee Directors, effective October 31, 2006, amended March 3, 2008	10-Q	001-08929	10.2	March 10, 2008
10.20*	2006 Equity Incentive Plan, as amended and restated June 3, 2008	10-Q	001-08929	10.1	September 8, 2008
10.21*	Statement of Terms and Conditions Applicable to Options, Restricted Stock and Restricted Stock Units and Performance Shares Granted to Employees Pursuant to the 2006 Equity Incentive Plan, as amended and restated December 9, 2008	8-K	001-08929	10.2	December 15, 2008
10.22*	Statement of Terms and Conditions Applicable to Options, Restricted Stock and Restricted Stock Units Granted to Directors Pursuant to the 2006 Equity Incentive Plan, as amended and restated June 3, 2008	10-Q	001-08929	10.3	September 8, 2008
10.23*	Supplemental Executive Retirement Plan, as amended and restated June 3, 2008	10-Q	001-08929	10.4	September 8, 2008
10.24*	Service Award Benefit Plan, as amended and restated June 3, 2008	10-Q	001-08929	10.5	September 8, 2008
10.25*	Executive Officer Incentive Plan, as amended and restated June 3, 2008	10-Q	001-08929	10.6	September 8, 2008
10.26*	Executive Severance Pay Policy, as amended and restated June 3, 2008	10-Q	001-08929	10.7	September 8, 2008
10.27*	Amended and Restated Employment Agreement dated July 15, 2008 by and between ABM Industries Incorporated and Henrik C. Slipsager	8-K	001-08929	10.1	July 18, 2008
10.28*	Amended and Restated Severance Agreement dated July 15, 2008 by and between ABM Industries Incorporated and Henrik C. Slipsager	8-K	001-08929	10.2	July 18, 2008
10.29*	Form of Amended Executive Employment Agreement	8-K	001-08929	10.1	August 13, 2008
10.30*	Form of Severance Agreement with James P. McClure, George B. Sundby, James S. Lusk and Steven M. Zaccagnini	10-K	061-08929	10.26	March 29, 2006
21.1	Subsidiaries of the Registrant				
23.1	Consent of Independent Registered Public Accounting Firm				
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2					

	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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

* Indicates management contract or compensatory plan, contract or arrangement

Indicates filed herewith

Indicates furnished herewith

74