

FEDERAL SIGNAL CORP /DE/

Form 10-Q

November 09, 2012

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

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

Commission file number: 1-6003

**Federal Signal Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-1063330**  
(I.R.S. Employer  
Identification No.)

**1415 West 22nd Street**  
**Oak Brook, IL 60523**  
(Address of principal executive offices) (Zip code)

**(630) 954-2000**  
(Company's telephone number including area code)

**Not applicable**  
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Title	
Common Stock, \$1.00 par value	62,293,684 shares outstanding at October 13, 2012



**Table of Contents**

**FEDERAL SIGNAL CORPORATION**

**INDEX TO FORM 10-Q**

	<b>Page</b>
<u>Part I. Financial Information</u>	3
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>	6
<u>Condensed Consolidated Statement of Shareholders' Equity for the Nine Months Ended September 30, 2012</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>Part II. Other Information</u>	29
<u>Item 1. Legal Proceedings</u>	29
<u>Item 1A. Risk Factors</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 5. Other Information</u>	30
<u>Item 6. Exhibits</u>	31
<u>Signatures</u>	32

## **Table of Contents**

### **Part I. Financial Information**

#### **Item 1. Financial Statements**

##### **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q filed by Federal Signal Corporation and its subsidiaries (the "Company") with the U.S. Securities and Exchange Commission (the "SEC"), and comments made by management may contain words such as may, will, believe, expect, anticipate, plan, project, estimate and objective or the negative thereof or similar terminology concerning the Company's future financial performance, business strategy, plans, goals and objectives. These expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning the Company's possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different.

These risks and uncertainties, some of which are beyond the Company's control, include the cyclical nature of the Company's industrial, municipal, government and commercial markets; domestic and foreign governmental policy changes; restrictive debt covenants; availability of credit and third-party financing for customers; our ability to anticipate and meet customer demands for new products and product enhancements and the resulting new and enhanced products generating sufficient revenues to justify research and development expenses; our incurrence of restructuring and impairment charges as we continue to evaluate opportunities to restructure our business; highly competitive markets; increased product liability, warranty, recall claims, client service interruptions and other lawsuits and claims; technological advances by competitors; disruptions in the supply of parts and components from suppliers and subcontractors; attraction and retention of key employees; disruptions within our dealer network; work stoppages and other labor relations matters; increased pension funding requirements and expenses beyond our control; costs of compliance with environmental and safety regulations; our ability to use net operating loss ("NOL") carryovers to reduce future tax payments; charges related to goodwill and other long-lived intangible assets; ability to expand our business through successful future acquisitions; unknown or unexpected contingencies in our existing business or in businesses acquired by us. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, *Risk Factors*, in the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other filings with the SEC. These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. The Company operates in a continually changing business environment and new factors emerge from time to time. The Company cannot predict such factors nor can it assess the impact, if any, of such factors on its financial position or results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. The Company disclaims any responsibility to update any forward-looking statement provided in this Form 10-Q.

##### **ADDITIONAL INFORMATION**

We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports and information filed with the SEC and amendments to those reports available, free of charge, through our Internet website (<http://www.federalsignal.com>) as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. All of our filings may be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

**Table of Contents****FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 185.0	\$ 167.8	\$ 585.5	\$ 493.7
Cost of sales	139.4	131.3	445.4	384.0
Gross profit	45.6	36.5	140.1	109.7
Selling, engineering, general and administrative	33.2	28.0	100.8	88.0
Restructuring charge			0.8	
Operating income	12.4	8.5	38.5	21.7
Interest expense	5.2	4.5	15.7	11.9
Debt settlement charges	1.9		3.5	
Other (income) expense, net	(0.1)	0.5	0.2	0.4
Income before income taxes	5.4	3.5	19.1	9.4
Income tax expense	(1.0)	(0.2)	(1.9)	(2.8)
Income from continuing operations	4.4	3.3	17.2	6.6
Loss from discontinued operations and disposal, net of income tax benefit of \$2.9, \$0.3, \$3.5 and \$0.3, respectively	(19.1)	(0.9)	(49.4)	(5.6)
Net (loss) income	\$ (14.7)	\$ 2.4	\$ (32.2)	\$ 1.0
Basic and diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.07	\$ 0.05	\$ 0.28	\$ 0.11
Loss from discontinued operations and disposal, net of tax	(0.31)	(0.01)	(0.79)	(0.09)
(Loss) earnings per share	\$ (0.24)	\$ 0.04	\$ (0.51)	\$ 0.02
Weighted average common shares outstanding:				
Basic	62.4	62.2	62.3	62.2
Diluted	63.0	62.2	62.6	62.2
Cash dividends declared per share of common stock	\$	\$	\$	\$
See notes to condensed consolidated financial statements.				

**Table of Contents****FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net (loss) income	\$ (14.7)	\$ 2.4	\$ (32.2)	\$ 1.0
Other comprehensive income:				
Change in foreign currency translation adjustment	2.7	(10.4)	9.3	(0.4)
Unrealized net gain (loss) on derivatives, net of tax expense (benefit) of \$0.0, (\$0.4), \$0.2, and \$0.1, respectively	0.0	(0.6)	0.6	(0.5)
Change in unrecognized loss related to pension benefit plans, net of tax expense of \$0.1, \$0.8, \$0.2, and \$0.2 respectively	1.0	1.0	3.8	4.0
Total other comprehensive income (loss)	3.7	(10.0)	13.7	3.1
Comprehensive (loss) income	\$ (11.0)	\$ (7.6)	\$ (18.5)	\$ 4.1

See notes to condensed consolidated financial statements.

**Table of Contents****FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2012 (unaudited)	December 31, 2011
<b>(in millions, except per share data)</b>		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 9.1	\$ 9.5
Restricted cash	1.5	
Accounts receivable, net of allowances for doubtful accounts of \$2.4 and \$2.4, respectively	99.4	105.0
Inventories	129.5	104.3
Other current assets	20.7	18.7
Current assets of discontinued operations	1.3	131.9
 Total current assets	 261.5	 369.4
Properties and equipment, net	58.8	60.0
Other assets		
Goodwill	271.0	270.6
Intangible assets, net	1.0	1.8
Deferred charges and other assets	13.3	2.0
Long-term assets of discontinued operations	1.6	2.9
 Total assets	 \$ 607.2	 \$ 706.7
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Short-term borrowings	\$ 2.0	\$ 9.0
Current portion of long-term borrowings and capital lease obligations	6.1	0.1
Accounts payable	50.9	49.5
Customer deposits	15.6	14.4
Deferred revenue	3.0	2.9
Accrued liabilities		
Compensation and withholding taxes	21.1	18.7
Other	36.6	34.0
Current liabilities of discontinued operations	15.8	35.7
 Total current liabilities	 151.1	 164.3
Long-term borrowings and capital lease obligations, less current portion	151.8	213.1
Long-term pension and other postretirement liabilities	63.3	74.1
Deferred gain	19.9	21.4
Deferred tax liabilities	42.0	36.0
Other long-term liabilities	13.9	14.5
Long-term liabilities of discontinued operations	6.7	8.6
 Total liabilities	 448.7	 532.0
Shareholders' equity		
Common stock, \$1 par value per share, 90.0 million shares authorized, 63.4 million and 63.1 million shares issued, respectively	63.4	63.1
Capital in excess of par value	170.0	167.7
Retained earnings	4.2	36.4
Treasury stock, 0.9 million and 0.9 million shares, respectively, at cost	(16.4)	(16.1)
Accumulated other comprehensive loss	(62.7)	(76.4)



# Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Total shareholders' equity	158.5	174.7
Total liabilities and shareholders' equity	\$ 607.2	\$ 706.7

See notes to condensed consolidated financial statements.

**Table of Contents****FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)**

(\$ in millions)	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2011	\$ 63.1	\$ 167.7	\$ 36.4	\$ (16.1)	\$ (76.4)	\$ 174.7
Net loss			(32.2)			(32.2)
Foreign currency translation					9.3	9.3
Unrealized gain on derivatives, net of tax expense of \$0.2					0.6	0.6
Change in unrecognized loss related to pension benefit plans, net of tax expense of \$0.2					3.8	3.8
Stock-based payments:						
Non-vested stock and options		2.1				2.1
Stock awards	0.3	0.2		(0.3)		0.2
Balance at September 30, 2012	\$ 63.4	\$ 170.0	\$ 4.2	\$ (16.4)	\$ (62.7)	\$ 158.5

See notes to condensed consolidated financial statements.

**Table of Contents****FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(\$ in millions)	Nine months ended September 30,	
	2012	2011
Operating activities		
Net (loss) income	\$ (32.2)	\$ 1.0
Adjustments to reconcile net loss to net cash (used for) provided by operating activities		
Loss on discontinued operations and disposal	49.4	5.6
Depreciation and amortization	9.6	9.6
Debt settlement charges	3.5	
Stock-based compensation expense	2.1	1.6
Pension expense, net of funding	(6.2)	1.5
Restructuring charge	0.8	
Deferred income taxes	2.6	2.1
Changes in other operating assets and liabilities	(10.8)	(9.0)
Net cash provided by continuing operating activities	18.8	12.4
Net cash used for discontinued operating activities	(21.1)	(11.6)
Net cash (used for) provided by operating activities	(2.3)	0.8
Investing activities		
Purchases of properties and equipment	(9.2)	(10.6)
Proceeds from sales of properties, plant and equipment	1.3	1.2
Proceeds from sale of FSTech Group	82.1	
Increase in restricted cash	(1.5)	
Net cash provided by (used for) continuing investing activities	72.7	(9.4)
Net cash provided by discontinued investing activities		
Net cash provided by (used for) investing activities	72.7	(9.4)
Financing activities		
Reduction in debt outstanding under revolving credit facilities	(173.1)	(28.6)
Proceeds on short-term borrowings	50.9	48.5
Payments on short-term borrowings	(58.5)	(42.4)
Proceeds from issuance of long-term borrowings	215.0	
Payments on long-term borrowings	(99.4)	(12.3)
Payments of debt financing fees	(6.9)	(2.3)
Cash dividends paid to shareholders		(3.7)
Other, net	2.3	0.7
Net cash used for continuing financing activities	(69.7)	(40.1)
Net cash used for discontinued financing activities	(0.9)	(0.3)
Net cash used for financing activities	(70.6)	(40.4)
Effects of foreign exchange rate changes on cash and cash equivalents	(0.2)	0.1
Decrease in cash and cash equivalents	(0.4)	(48.9)
Cash and cash equivalents at beginning of period	9.5	62.1

Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Cash and cash equivalents at end of period	\$ 9.1	\$ 13.2
--	--------	---------

See notes to condensed consolidated financial statements.

---

**Table of Contents**

**FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Description of the Business*

Federal Signal Corporation was founded in 1901 and was reincorporated as a Delaware corporation in 1969. References herein to the Company, we, our, or us refer collectively to Federal Signal Corporation and its subsidiaries.

*Basis of Presentation and Consolidation*

The accompanying unaudited condensed consolidated financial statements represent the consolidation of the Company included herein and have been prepared by the Company pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to ensure that the information presented is not misleading. These condensed consolidated financial statements have been prepared in accordance with the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and should be read in conjunction with the consolidated financial statements and the related notes thereto.

These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary for a fair presentation. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. We label our quarterly information using a calendar convention; that is, first quarter is labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is our longstanding practice to establish interim quarterly closing dates using a 5-4-4 calendar with the fiscal year ending on December 31. The effects of this practice are modest and only exist within a reporting year.

As discussed in Note 12 Discontinued Operations, on June 21, 2012, the Company announced that it had signed a definitive agreement to sell its Federal Signal Technologies ( FSTech ) Group. On September 4, 2012, the Company completed the disposition of the assets of its FSTech Group. As the Company had met the held for sale criteria during the second quarter of 2012, the FSTech Group has been reported as a discontinued operation. The condensed consolidated financial statements for all periods presented have been recast to present the operating results of the held for sale and previously divested or exited businesses as discontinued operations.

We have reclassified certain prior-period amounts to conform to the current period presentation.

*Recent Accounting Pronouncements and Accounting Changes*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2011-04, *Fair Value Measurement Topic 820, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ( ASU 2011-04 ), which amends the definition of fair value measurement principles and disclosure requirements to eliminate differences between U.S. GAAP and International Financial Reporting Standards ( IFRS ). ASU 2011-04 requires new quantitative and qualitative disclosures about the sensitivity of recurring Level 3 measurement disclosures, as well as transfers between Level 1 and Level 2 of the fair value hierarchy. The Company's adoption of this guidance on January 1, 2012 did not impact the Company's financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Topic 220, Presentation of Comprehensive Income* ( ASU 2011-05 ), which requires companies to include a statement of comprehensive income as part of their interim and annual financial statements. The new guidance gives companies the option to present net income and comprehensive income either in one continuous statement or in two separate but consecutive statements. This approach represents a change from current U.S. GAAP, which allows companies to report other comprehensive income ( OCI ) and its components in the statement of shareholders' equity. The new guidance also allows companies to present OCI either net of tax with details in the notes or to present amounts gross (with tax effects shown parenthetically). The Company's disclosure of comprehensive income for the three and nine months ended September 30, 2012 and 2011 is presented in the Company's condensed consolidated statements of comprehensive income in this Form 10-Q. Under the new guidance, certain information included in the condensed consolidated statement of shareholders' equity is shown in the new statement of comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning January 1, 2012, and should be applied retrospectively. The new guidance impacts presentation only and the Company's adoption of this guidance on January 1, 2012 did not have an impact on its financial position, results of operations, or cash flows.



**Table of Contents**

In September 2011, the FASB issued ASU No. 2011-08, *Topic 350, Testing of Goodwill for Impairment* ( ASU 2011-08 ), which allows companies to assess qualitative factors to determine whether they need to perform the two-step quantitative goodwill impairment test. Under the option, an entity no longer would be required to calculate the fair value of a reporting unit unless it determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 may change how a company tests goodwill for impairment but should not change the timing or measurement of goodwill impairments. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011. The Company performed its annual goodwill impairment test as of October 31, 2011. The Company's adoption of this guidance on January 1, 2012 did not have an impact on its results of operations, financial position, or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, *Topic 210, Disclosures about Offsetting Assets and Liabilities*. This update is intended to improve the comparability of statements of financial position prepared in accordance with U.S. GAAP and IFRS, requiring both gross and net presentation of offsetting assets and liabilities. The new requirements are effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. As this guidance only affects disclosures, the Company expects that the adoption of this standard will not have an impact on the Company's results of operations, financial position, or cash flows.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, revenue recognition, pension and other postretirement benefits, allowance for doubtful accounts, income tax contingency accruals and valuation allowances, product warranty accruals, asset impairment, purchase price allocation and litigation-related accruals. Actual results could differ from our estimates.

There have been no changes to the Company's significant accounting policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

*Restricted Cash*

Restricted cash of \$1.5 million at September 30, 2012 consisted of cash deposited with various financial institutions that was pledged as collateral for the Company's cash-collateralized letters of credit related to equipment and service performance guarantees.

**2. INVENTORIES**

(\$ in millions)	September 30, 2012	December 31, 2011
Raw materials	\$ 59.2	\$ 47.1
Work in progress	32.1	27.6
Finished goods	38.2	29.6
Total inventories	\$ 129.5	\$ 104.3

**3. GOODWILL AND OTHER INTANGIBLE ASSETS**

(\$ in millions)	December 31, 2011	Currency Translation Adjustments	September 30, 2012
Goodwill			
Environmental Solutions	\$ 120.4	\$	\$ 120.4
Fire Rescue	33.2	0.3	33.5
Safety and Security Systems	117.0	0.1	117.1

Total	\$	270.6	\$	0.4	\$	271.0
-------	----	-------	----	-----	----	-------



**Table of Contents**

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets:

		September 30, 2012			December 31, 2011		
	Average	Gross		Net	Gross		Net
(\$ in millions)	Useful Life	Carrying	Accumulated	Carrying	Carrying	Accumulated	Carrying
	(Years)	Value	Amortization	Value	Value	Amortization	Value
Amortizable intangible assets							
Developed software	6	\$ 6.0	\$ (5.1)	\$ 0.9	\$ 6.0	\$ (4.4)	\$ 1.6
Patents	10	0.6	(0.5)	0.1	0.6	(0.4)	0.2
Total	6	\$ 6.6	\$ (5.6)	\$ 1.0	\$ 6.6	\$ (4.8)	\$ 1.8

Amortization expense for the three and nine month periods ended September 30, 2012 totaled \$0.3 million and \$0.8 million, respectively, and for the three and nine month periods ended September 30, 2011 totaled \$0.3 million and \$0.9 million, respectively. The Company estimates that the total amortization expense will be \$1.0 million in 2012, \$0.3 million in 2013, \$0.2 million in 2014, \$0.2 million in 2015, and \$0.1 million in 2016.

The Company accounts for goodwill and identifiable intangible assets in accordance with ASC 350, *Intangibles Goodwill and Other*. Under this standard, the Company assesses the impairment of goodwill and indefinite-lived intangible assets at least annually, on October 31, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

**4. FAIR VALUE MEASUREMENTS**

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs, other than quoted prices included in Level 1, such as quoted prices for markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The carrying value of short-term debt approximates fair value due to its short maturity (Level 2 input). The fair value of long-term debt is based on interest rates that we believe are currently available to us for issuance of debt with similar terms and remaining maturities (Level 2 input). The carrying amounts of cash and cash equivalents and restricted cash approximate fair value because of the short-term maturity and highly liquid nature of these instruments (Level 1 input).

*Fair Value Assets Measured at Level 3 on a Nonrecurring Basis*

The Company measures certain assets, including intangible trade name assets and goodwill, at fair value on a nonrecurring basis. The Company's calculation of fair value of trade name assets is based on an income approach using discounted cash flow projections.

The Company determined that the trade name assets associated with the FSTech Group with a carrying value of \$7.9 million were impaired, and recorded an impairment charge of \$0.6 million in the second quarter of 2012. The trade name assets were sold to 3M Company as part of the sale

of the FSTech Group.

**Table of Contents**

The following table summarizes the carrying amounts and fair values of the Company's financial instruments:

(\$ in millions)	September 30, 2012		December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Short-term debt	\$ 2.0	\$ 2.0	\$ 9.0	\$ 9.0
Long-term debt (1)	157.9	183.2	214.1	212.4

- (1) Long-term debt includes current portions of long-term debt and current portions of capital lease obligations of \$6.1 million and \$0.1 million as of September 30, 2012 and December 31, 2011, respectively, and \$0.9 million of financial service borrowings at December 31, 2011 which is included in discontinued operations.

**5. DEBT**

Short-term borrowings consisted of the following:

(\$ in millions)	September 30, 2012	December 31, 2011
Non-U.S. lines of credit	\$ 2.0	\$ 9.0
Total short-term borrowings	\$ 2.0	\$ 9.0

Long-term borrowings consisted of the following:

(\$ in millions)	September 30, 2012	December 31, 2011
Revolving Credit Facility	\$	\$ 180.0
ABL Facility	6.9	
Term Loan	149.1	
12.98% private placement note due 2012		27.3
Private placement note, floating rate (8.85% at December 31, 2011)		6.2
Capital lease obligations	1.9	0.5
	157.9	214.0
Unamortized balance of terminated fair value interest rate swaps		0.1
	157.9	214.1
Less current maturities	(5.7)	
Less current capital lease obligations	(0.4)	(0.1)
Less financial services activities borrowings (included in discontinued operations)		(0.9)
Total long-term borrowings and capital lease obligations, net	\$ 151.8	\$ 213.1

On February 22, 2012, the Company entered into a Credit Agreement, by and among the Company, as borrower, and General Electric Capital Corporation, as a co-collateral agent, and Wells Fargo Capital Finance, LLC, as administrative agent and co-collateral agent, providing the

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Company with a new \$100 million secured credit facility (the ABL Facility ).

The ABL Facility is a five-year asset-based revolving credit facility pursuant to which up to \$100 million initially will be available, with the right, subject to certain conditions, to increase the availability under the facility by up to an additional \$25 million. The ABL Facility provides for loans and letters of credit in an amount up to the aggregate availability under the facility subject to meeting certain borrowing base conditions, with a sub-limit of \$50 million for letters of credit. Borrowings under the ABL Facility bear interest, at the Company's option, at a base rate or a LIBOR rate, plus, in each case, an applicable margin. The applicable margin ranges from 1.00% to 2.75% for base rate borrowings and 1.75% to 3.50% for LIBOR borrowings. The Company must also pay a commitment fee to the facility lenders equal to 0.50% per annum on the unused portion of the ABL Facility along with other standard fees. Letter of credit fees are payable on outstanding letters of credit in an amount equal to the applicable LIBOR margin plus other customary fees.

The Company is allowed to prepay in whole or in part advances under the ABL Facility without penalty or premium other than customary breakage costs with respect to LIBOR loans.

The ABL Facility requires that the Company, on a consolidated basis, maintain a minimum monthly fixed charge coverage ratio, along with other customary restrictive covenants, certain of which are subject to materiality thresholds. The Company was in compliance with all of its debt covenants as of September 30, 2012.

## **Table of Contents**

The obligations under the ABL Facility are secured by (i) a first priority security interest in the Company's and its domestic subsidiaries accounts, inventory, chattel paper, payment intangibles, cash and cash equivalents and other working capital assets (the "ABL First Priority Collateral") and (ii) a second priority security interest in all other now or hereafter acquired domestic property and assets, the stock or other equity interests in each of the domestic subsidiaries and certain of the first-tier foreign subsidiaries, subject to certain exclusions.

The Company's obligations under the ABL Facility are guaranteed by certain of the Company's domestic subsidiaries.

On February 22, 2012, the Company also entered into a Financing Agreement by and among the Company, as borrower, certain subsidiaries of the Company, as guarantors, the lenders party thereto (the "Term Lenders") and TPG Specialty Lending, Inc., as administrative agent, collateral agent and sole lead arranger, pursuant to which the Term Lenders agreed to provide the Company with a \$215 million term loan (the "Term Loan").

The Term Loan is a five-year, secured term loan maturing on February 22, 2017. Installment payments under the Term Loan do not commence until March 2013. The Term Loan allows for mandatory prepayments in certain specified situations. Except in these certain specified situations, the Term Loan is not repayable in the first 12 months of the term and thereafter is subject to the following prepayment premium; (i) 2.75% in months 13-24, (ii) 2.00% in months 25-36 and (iii) nothing thereafter. These provisions are subject to change upon the occurrence of certain specified events.

The Term Loan will bear interest, at the Company's option, at a base rate or adjusted LIBOR rate, plus, in each case, an applicable margin. The applicable margin ranges from 9.00% to 10.00% for base rate borrowings and 10.00% to 11.00% for LIBOR borrowings. The Company is required to pay certain customary fees in connection with the Term Loan.

The Term Loan requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio, maximum capital expenditures, minimum liquidity, and maximum leverage ratio. The Term Loan has other restrictive covenants which are substantively similar to those applicable to the ABL Facility. The Company was in compliance with all of its debt covenants as of September 30, 2012.

The obligations under the Term Loan are secured by (i) a first priority security interest in all now or hereafter acquired domestic property and assets (excluding the ABL First Priority Collateral), the stock or other equity interests in each of the domestic subsidiaries and certain of the first-tier foreign subsidiaries, subject to certain exclusions, and (ii) a second priority security interest in the ABL First Priority Collateral.

The Company's obligations under the Term Loan are guaranteed by certain of the Company's domestic subsidiaries.

Under the Term Loan, dividends shall be permitted only if the following conditions are met:

No default or event of default shall exist or shall result from such payment;

The fixed charge ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), not less than 1.50 to 1.00; and

The leverage ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), less than 2.00 to 1.00.

The Company used the proceeds from the ABL Facility and the Term Loan to (i) repay outstanding balances under the Company's existing \$240 million secured revolving credit facility, dated as of April 25, 2007, as amended, which was to mature on April 25, 2012 (the "Prior Credit Agreement"); (ii) retire the Company's private placement notes issued pursuant to the Note Purchase Agreement, dated as of June 1, 2009, as amended, and pursuant to the Master Note Purchase Agreement dated as of June 1, 2003, as amended (together, the "Prior Note Purchase Agreements"); (iii) finance the ongoing general corporate needs of the Company and its subsidiaries; and (iv) pay fees and expenses associated with repayment of amounts due under the Prior Credit Agreement and the Prior Note Purchase Agreements, including the payment of approximately \$1.0 million in resulting breakage fees and premiums under the Prior Credit Agreement and Prior Note Purchase Agreements, and pay fees and expenses associated with the ABL Facility and the Term Loan.

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

In accounting for the classification of its outstanding debt as of December 31, 2011, the Company considered the guidance in ASC 470-10-45-14. As the Company had effectively refinanced short-term debt on a long-term basis subsequent to the condensed consolidated balance sheet date, the amounts outstanding under the Prior Credit Agreement and the Prior Note Purchase Agreements as of December 31, 2011 were reflected as a component of long-term borrowings and capital lease obligations on the condensed consolidated balance sheet.

As of December 31, 2011, \$180.0 million was drawn on the Prior Credit Agreement leaving available borrowings of \$49.1 million that included \$32.5 million of capacity used for existing letters of credit.

## **Table of Contents**

On September 4, 2012, the Company prepaid \$65.0 million of its outstanding principal balance of its Term Loan debt at par with no prepayment penalty and related accrued interest of \$0.1 million with net proceeds from the sale of FSTech. This prepayment was executed in accordance with the terms of the Financing Agreement. The Company also prepaid \$10.0 million of debt drawn under the ABL Facility on the same date with net proceeds from the sale of FSTech.

As of September 30, 2012, the available borrowing base under the ABL Facility was \$62.9 million. As of September 30, 2012, there was \$6.9 million in cash drawn and \$31.3 million of undrawn letters of credit under the ABL Facility, reducing net availability for borrowings to \$24.7 million.

As of September 30, 2012, \$2.0 million was drawn against the Company's non-U.S. lines of credit which provide for borrowings up to \$14.1 million.

The Financing Agreement included a provision that if as of September 30, 2012, the outstanding ABL Facility debt plus the outstanding Term Loan debt was less than \$170.0 million, the installment payments required against the Term Loan due on March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013 would be reduced on a pro rata basis, dollar-for-dollar by the amount the outstanding ABL Facility debt plus the outstanding Term Loan debt was less than \$170.0 million as of September 30, 2012. The balance of the ABL Facility debt plus the outstanding Term Loan debt was \$156.0 million on September 30, 2012. The resulting variance of \$14.0 million between the target of \$170.0 million and the actual balance of \$156.0 million will reduce the required 2013 quarterly installment payments against the Term Loan by \$3.5 million per quarter.

Aggregate maturities of total borrowings amount to approximately \$2.5 million in 2012, \$8.0 million in 2013, \$32.6 million in 2014, \$32.6 million in 2015, \$32.4 million in 2016, and \$51.8 million thereafter. These maturities primarily reflect the payment terms of the ABL Facility and the Term Loan. The fair values of aggregate borrowings were \$185.2 million and \$221.4 million at September 30, 2012 and December 31, 2011, respectively. Included in current maturities are \$2.0 million of other non-U.S. lines of credit, \$5.7 million of Term Loan, and \$0.4 million of capital lease obligations.

Upon execution of the Company's new debt agreements in February 2012, the remaining unamortized deferred financing costs related to the Prior Credit Agreement and the Prior Note Purchase Agreement were written off. In the first quarter of 2012, the Company recorded \$1.6 million of costs related to the termination of its prior debt agreements. The costs included \$1.0 million of make-whole interest payments and a write-off of deferred financing costs of \$0.6 million.

The Company has incurred \$8.3 million of debt issuance costs associated with the execution of its new debt agreements through September 30, 2012, of which \$6.9 million was paid in 2012. Financing costs incurred related to the new debt agreements are deferred and amortized over the remaining life of the new debt. On September 4, 2012, the Company expensed \$1.9 million of deferred debt issuance costs related to the \$75.0 million prepayment of the outstanding principal for the Term Loan and ABL Facility. At September 30, 2012 and December 31, 2011, deferred financing fees totaled \$5.1 million and \$1.0 million, respectively, and are included in deferred charges and other assets on the condensed consolidated balance sheet.

## **6. INCOME TAXES**

The Company recognized an income tax provision of \$1.0 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, the Company recognized an income tax provision of \$1.9 million and \$2.8 million, respectively. The income tax provision for the three and nine months ended September 30, 2012 and 2011 primarily relates to tax expense at non-U.S. operations that are not in a cumulative loss position. Due to the Company's recent cumulative domestic losses for book purposes and the uncertainty of the realization of certain deferred tax assets, the Company continues to adjust its valuation allowance as the deferred tax assets increase or decrease, resulting in effectively no recorded tax benefit for domestic operating losses. The Company's effective tax rate was 19% and 6% for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, the Company's effective tax rate was 10% and 30%, respectively.

The Company's unrecognized tax benefits were \$4.1 million at September 30, 2012 and \$4.3 million at December 31, 2011, of which \$4.0 million and \$4.2 million at September 30, 2012 and December 31, 2011, respectively, are tax benefits that, if recognized, would reduce the annual effective tax rate. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company expects the unrecognized tax benefits to decrease by \$1.4 million over the next twelve months.





**Table of Contents****7. POSTRETIREMENT BENEFITS**

The components of the Company's net periodic pension expense for its defined benefit pension plans are summarized as follows:

(\$ in millions)	U.S. Benefit Plan				Non-U.S. Benefit Plan			
	Three months ended		Nine months ended		Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Service cost	\$ 1.5	\$ 1.8	\$ 5.5	\$ 5.5	\$ 0.1	\$ 0.8	\$ 0.2	\$ 0.1
Interest cost	(1.6)	(1.7)	(6.0)	(5.3)	(0.7)	(0.8)	(2.0)	(2.5)
Expected return on plan assets	1.3	1.1	4.1	3.3	0.2	0.2	0.6	0.7
Amortization of actuarial loss								
Net pension expense	\$ 1.2	\$ 1.2	\$ 3.6	\$ 3.5	\$ 0.3	\$ 0.2	\$ 0.8	\$ 0.5

During the nine-month period ended September 30, 2012, the Company contributed \$9.2 million to its U.S. defined benefit plan and \$1.4 million to its non-U.S. defined benefit plan. During the comparable prior-year period, the Company contributed \$1.6 million to the U.S. defined benefit plan and \$0.9 million to the non-U.S. defined benefit plan. The Company expects to only contribute \$9.2 million to the U.S. benefit plan and approximately \$1.6 million to the non-U.S. benefit plan in 2012.

**8. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share (EPS) is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and performance stock units. For the three-month periods ended September 30, 2012 and 2011, options to purchase 2.4 million and 2.1 million shares of the Company's common stock, respectively, had an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS. For the nine months ended September 30, 2012 and 2011, options to purchase 2.3 million and 1.9 million shares of the Company's common stock, respectively, had an antidilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS.

**Computation of Earnings (Loss) per Common Share**

(in millions, except per share data)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Income from continuing operations	\$ 4.4	\$ 3.3	\$ 17.2	\$ 6.6
Loss from discontinued operations and disposal, net of tax	(19.1)	(0.9)	(49.4)	(5.6)
Net (loss) income	\$ (14.7)	\$ 2.4	\$ (32.2)	\$ 1.0
Weighted average shares outstanding - basic	62.4	62.2	62.3	62.2
Dilutive effect of common stock equivalents	0.6		0.3	
Weighted average shares outstanding - diluted	63.0	62.2	62.6	62.2
Basic and diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.07	\$ 0.05	\$ 0.28	\$ 0.11
Loss from discontinued operations and disposal, net of tax	(0.31)	(0.01)	(0.79)	(0.09)
(Loss) earnings per share	\$ (0.24)	\$ 0.04	\$ (0.51)	\$ 0.02

## 9. COMMITMENTS

### *Standby Letters of Credit*

At September 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit aggregating \$31.3 million and \$34.2 million, respectively, principally to act as security for retention levels related to casualty insurance policies and to guarantee the performance of subsidiaries that engage in export transactions to non-U.S. governments and municipalities.

**Table of Contents***Warranties*

The Company issues product performance warranties to customers with the sale of its products. The specific terms and conditions of these warranties vary depending upon the product sold and the country in which the Company conducts business, with warranty periods generally ranging from one to ten years. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time the sale of the related product is recognized. Factors that affect the Company's warranty liability include the number of units under warranty from time to time, historical and anticipated rates of warranty claims, and costs per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liabilities in the nine-month periods ended September 30, 2012 and 2011 were as follows:

(\$ in millions)	2012	2011
Balance at January 1	\$ 6.7	\$ 5.5
Provisions to expense	4.7	6.4
Actual costs incurred	(4.6)	(5.9)
Balance at September 30	\$ 6.8	\$ 6.0

*Environmental Liabilities*

The Company retained an environmental consultant to conduct an environmental risk assessment at its former Pearland, Texas facility. In May 2012, the Company sold its Pearland, Texas facility for proceeds of \$0.9 million and recorded a pre-tax gain of \$0.4 million. The facility, which was previously used by the Company's discontinued Pauluhn business, manufactured marine, offshore and industrial lighting products. While the Company has not completed the risk assessment analysis, it appears probable the site will require remediation. As of September 30, 2012 and December 31, 2011, \$1.9 million and \$2.2 million, respectively, of reserves related to the environmental remediation are included in the liabilities of discontinued operations. The Company's estimate may change in the near term as more information becomes available; however, the costs are not expected to have a material adverse effect on the Company's results of operations, financial position or liquidity.

*Legal Proceedings*

The Company is subject to various claims, other pending and possible legal actions for product liability and other damages, and other matters arising out of the conduct of the Company's business. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have a material adverse effect on the Company's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company has been sued by firefighters seeking damages claiming that exposure to the Company's sirens has impaired their hearing and that the sirens are therefore defective. There were 33 cases filed during the period of 1999 through 2004, involving a total of 2,443 plaintiffs, in the Circuit Court of Cook County, Illinois. These cases involved more than 1,800 firefighter plaintiffs from locations outside of Chicago. Beginning in 2009, six additional cases were filed in Cook County, involving 299 Pennsylvania firefighter plaintiffs. The trial of the first 27 of these plaintiffs' claims occurred in 2008, when a Cook County jury returned a unanimous verdict in favor of the Company. An additional 40 Chicago firefighter plaintiffs were selected for trial in 2009. Plaintiffs' counsel later moved to reduce the number of plaintiffs from 40 to 9. The trial for these nine plaintiffs concluded with a verdict returned against the Company and for the plaintiffs in varying amounts totaling \$0.4 million. The Company appealed this verdict. On September 13, 2012, the Illinois Appellate Court rejected this appeal. Two justices voted to uphold the verdict and one justice filed a lengthy and vigorous dissent. The Company has filed a petition for rehearing with the Appellate Court. The Appellate Court has requested further briefing on this petition, which should be completed by January 2013. The Company also is considering a petition for leave to appeal to the Illinois Supreme Court, if the Appellate Court decision is not reversed.

A third consolidated trial involving eight Chicago firefighter plaintiffs occurred during November 2011. The jury returned a unanimous verdict in favor of the Company at the conclusion of this trial. Following this last trial, the trial court on March 12, 2012 entered an order certifying a class of the remaining Chicago Fire Department firefighter plaintiffs for trial on the sole issue of whether the Company's sirens were defective and unreasonably dangerous. The Company petitioned the Illinois appellate court for interlocutory appeal of this ruling. On May 17, 2012, the Illinois appellate court accepted the Company's petition. On June 8, 2012, plaintiffs moved to dismiss the appeal, agreeing with the Company that the trial court had erred in certifying a class action trial in this matter. Pursuant to plaintiffs' motion, the appellate court reversed the trial

court's certification order. Thereafter, the trial court scheduled another consolidated trial, involving three firefighter plaintiffs, which is set to begin on December 6, 2012. One of these firefighter trial plaintiffs has since voluntarily dismissed his case against the Company.

## **Table of Contents**

The Company has also been sued on this issue outside of the Cook County, Illinois venue. Most of these cases have involved lawsuits filed by a single attorney in the Court of Common Pleas, Philadelphia County, Pennsylvania. During 2007 and through 2009, this attorney filed a total of 71 lawsuits, involving 71 plaintiffs in this jurisdiction. Three of these cases were dismissed pursuant to pretrial motions filed by the Company. Another case was voluntarily dismissed. Prior to trial in four cases, the Company paid nominal sums, which included reimbursements of expenses, to obtain dismissals. Three trials occurred in Philadelphia involving these cases. The first trial involving one of these plaintiffs occurred in 2010, when the jury returned a verdict for the plaintiff. In particular, the jury found that the Company's siren was not defectively designed, but that the Company negligently constructed the siren. The jury awarded damages in the amount of \$0.1 million, which was subsequently reduced to \$0.08 million. The Company appealed this verdict. Another trial, involving nine Philadelphia firefighter plaintiffs, also occurred in 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial. The third trial, involving nine Philadelphia firefighter plaintiffs, was completed during 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial.

Following defense verdicts in the last two Philadelphia trials, the Company negotiated settlements with respect to all remaining filed cases in Philadelphia at that time, as well as other firefighter claimants represented by the attorney who filed the Philadelphia cases. On January 4, 2011, the Company entered into a Global Settlement Agreement (the "Settlement Agreement") with the law firm of the attorney representing the Philadelphia claimants, on behalf of 1,125 claimants the firm represents (the "Claimants") and who had asserted product claims against the Company (the "Claims"). Three hundred and eight of the Claimants had lawsuits pending against the Company in Cook County, Illinois.

The Settlement Agreement, as amended, provided that the Company pay (the "Settlement Payment") a total amount of \$3.8 million to settle the Claims (including the costs, fees and other expenses of the law firm in connection with its representation of the claimants), subject to certain terms, conditions and procedures set forth in the Settlement Agreement. In order for the Company to be required to make the Settlement Payment: (i) each claimant who agreed to settle his or her claims had to sign a release acceptable to the Company (a "Release"); (ii) each Claimant who agreed to the settlement and who was a plaintiff in a lawsuit, had to dismiss his or her lawsuit, with prejudice; (iii) by April 29, 2011, at least 93% of the claimants identified in the Settlement Agreement must have agreed to settle their claims and provide a signed Release to the Company; and (iv) the law firm had to withdraw from representing any claimants who did not agree to the settlement, including those who filed lawsuits. If the conditions to the settlement were met, but less than 100% of the Claimants agreed to settle their Claims and sign a Release, the Settlement Payment would be reduced by the percentage of Claimants who did not agree to the settlement.

On April 22, 2011, the Company confirmed that the terms and conditions of the Settlement Agreement had been met and made a payment of \$3.6 million to conclude the settlement. The amount was based upon the Company's receipt of 1,069 signed releases provided by claimants, which was 95.02% of all claimants identified in the Settlement Agreement.

The Company generally denies the allegations made in the claims and lawsuits by the Claimants and denies that its products caused any injuries to the Claimants. Nonetheless, the Company entered into the Settlement Agreement for the purpose of minimizing its expenses, including legal fees, and avoiding the inconvenience, uncertainty, and distraction of the claims and lawsuits.

During April and May 2012, 15 new cases were filed in the Court of Common Pleas, Philadelphia County, Pennsylvania. These cases were filed on behalf of 15 Philadelphia firefighters and involve various defendants in addition to the Company.

Firefighters have brought hearing loss claims against the Company in jurisdictions other than Philadelphia and Cook County. In particular, cases have been filed in New Jersey, Missouri, Maryland, and New York. All of those cases, however, were dismissed prior to trial, including four cases in the Supreme Court of Kings County, New York which were dismissed upon the Company's motion in 2008. The trial court subsequently denied reconsideration of its ruling. On appeal, the appellate court affirmed the trial court's dismissal of these cases. Plaintiffs' attorneys have threatened to file additional lawsuits. The Company intends to vigorously defend all of these lawsuits, if filed.

Federal Signal's ongoing negotiations with its insurer, CNA, over insurance coverage on these claims have resulted in reimbursements of a portion of the Company's defense costs. In the year ended December 31, 2011, the Company recorded \$0.8 million of reimbursements from CNA related to legal costs incurred in the prior year, as a reduction of corporate operating expenses all of which had been received as of December 31, 2011. For the nine months ended September 30, 2012, the Company recorded \$0.4 million of reimbursements from CNA related to legal costs incurred in the prior year, as a reduction of corporate operating expenses, all of which has been received as of September 30, 2012.

On July 29, 2011, Neology, Inc. filed a complaint against the Company in the U.S. District Court of Delaware for alleged patent infringements. The lawsuit demands that the Company cease manufacturing, marketing, importing or selling Radio Frequency Identification ("RFID") systems and products that allegedly infringe certain specified patents owned by Neology, and also demands compensation for past alleged infringement. The Company has denied the allegations in the complaint. On December 2, 2011, Neology filed a motion for preliminary injunction, requesting that the court enter an order preliminarily enjoining the Company from further alleged infringement of certain Neology patents. On June 18, 2012, a U.S. District Court Magistrate issued a Report and Recommendation that the motion for a preliminary injunction be denied. On

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

August 12, 2012, a U.S. District Court Judge adopted that Report and Recommendation. On August 20, 2012, Neology filed a motion for leave to file for partial summary judgment against the Company regarding two of the patents in issue in this litigation. On September 21, 2012, a U.S. District Court Magistrate denied the motion.

## **Table of Contents**

On May 21, 2012, Neology filed another complaint against the Company, also for alleged patent infringement, in the U.S. District Court for the Central District of California. On July 19, 2012, Neology filed certain amendments to that complaint. The amended complaint similarly demands that the Company cease manufacturing, marketing, importing or selling certain RFID transponders and readers that allegedly infringe certain other specified patents owned by Neology, and also demands compensation for past alleged infringement. The Company has denied the allegations in the complaint. On September 10, 2012, the Company filed a motion requesting that the court transfer this litigation to the U.S. District Court of Delaware, where Neology filed its earlier patent infringement suit against the Company. On October 15, 2012, the court granted this motion and ordered the transfer of this litigation to the U.S. District Court of Delaware.

In connection with the closing of the sale of the FSTech Group to 3M Company on September 4, 2012, 3M Company agreed to assume the defense of the Neology lawsuits. A portion of the purchase price proceeds was placed into escrow to be held for a period of 48 months as security for our indemnification obligations as well as defense and other costs associated with the lawsuits, subject to early release under certain conditions. Information regarding the Company's discontinued operations is included in Note 12 Discontinued Operations.

## **10. SEGMENT INFORMATION**

The Company has three operating segments as defined under ASC *Topic 280, Segment Reporting*. Business units are organized under each segment because they share certain characteristics, such as technology, marketing, distribution and product application, which create long-term synergies. The principal activities of the Company's operating segments are as follows:

***Safety and Security Systems*** Our Safety and Security Systems Group is a leading manufacturer and supplier of comprehensive systems and products that law enforcement, fire rescue, emergency medical services, campuses, military facilities and industrial sites use to protect people and property. Offerings include systems for campus and community alerting, emergency vehicles, first responder interoperable communications, industrial communications and command and municipal networked security. Specific products include lightbars and sirens, public warning sirens and public safety software. Products are primarily sold under the Federal Signal<sup>TM</sup>, Federal Signal VAMA<sup>TM</sup>, Target Tech<sup>®</sup>, and Victor<sup>TM</sup> brand names. The Group operates manufacturing facilities in North America, Europe, and South Africa.

***Fire Rescue*** Our Fire Rescue Group manufactures articulated and telescopic aerial platforms for rescue and fire fighting and for maintenance purposes. This Group sells to municipal and industrial fire services, civil defense authorities, rental companies, electric utilities and industrial customers. The Group manufactures in Finland and sells globally under the Bronto Skylift<sup>®</sup> brand name.

***Environmental Solutions*** Our Environmental Solutions Group manufactures a variety of self-propelled street cleaning vehicles, vacuum loader vehicles, municipal catch basin/sewer cleaning vacuum trucks, and waterblasting equipment. The Group sells primarily to municipal and government customers and industrial contractors. Products are sold under the Elgin<sup>®</sup>, Vactor<sup>®</sup>, Guzzler<sup>®</sup> and Jetstream<sup>®</sup> brand names. The Group primarily manufactures its vehicles and equipment in the United States.

Corporate contains those items that are not included in our operating segments.

The Company evaluates performance based on operating income of the respective segment. Operating income includes all revenues, costs and expenses directly related to the segment involved. In determining operating segment income, neither corporate nor interest expenses are included. Operating segment depreciation expense, identifiable assets and capital expenditures relate to those assets that are utilized by the respective operating segment. Corporate assets consist principally of cash and cash equivalents, short-term investments, notes and other receivables and fixed assets. The accounting policies of each operating segment are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Intersegment sales were not material for the nine months ended September 30, 2012 and 2011.

We have reclassified certain prior-period amounts to conform to the current period presentation. Segment results have been recast to exclude the results of the FSTech Group's operations, which have been presented as discontinued operations. Information regarding the Company's discontinued operations is included in Note 12 Discontinued Operations.

**Table of Contents**

The following table summarizes the Company's net sales, operating income (loss), and total assets by segment. The results for the interim periods are not necessarily indicative of results for a full year.

(\$ in millions)	Safety And Security Systems	Fire Rescue	Environmental Solutions	Corporate And Eliminations	Total
Three months ended September 30, 2012					
Net sales	\$ 57.8	\$ 25.6	\$ 101.6	\$	\$ 185.0
Operating income (loss)	7.8	1.9	9.3	(6.6)	12.4
Three months ended September 30, 2011					
Net sales	52.0	22.2	93.6		167.8
Operating income (loss)	4.4	0.2	7.7	(3.8)	8.5

(\$ in millions)	Safety And Security Systems	Fire Rescue	Environmental Solutions	Corporate And Eliminations	Total
Nine months ended September 30, 2012					
Net sales	\$ 173.2	\$ 90.7	\$ 321.6	\$	\$ 585.5
Operating income (loss)	18.7	4.4	33.8	(18.4)	38.5
Nine months ended September 30, 2011					
Net sales	161.0	68.1	264.6		493.7
Operating income (loss)	15.9	1.7	17.8	(13.7)	21.7

(\$ in millions)	Safety And Security Systems	Fire Rescue	Environmental Solutions	Corporate And Eliminations	Discontinued Operations	Total
As of September 30, 2012						
Total assets	\$ 205.8	\$ 111.7	\$ 251.9	\$ 34.9	\$ 2.9	\$ 607.2
As of December 31, 2011						
Total assets	\$ 200.3	\$ 117.3	\$ 231.7	\$ 22.6	\$ 134.8	\$ 706.7

**11. RESTRUCTURING***2012 Plan*

During the first quarter of 2012, the Company recorded expenses of \$0.9 million related to severance costs in the Safety and Security Systems Group, which is the total amount expected to be incurred for these activities. These actions are expected to be completed within the next 12 months.

*2010 Plan*

During 2010, the Company announced restructuring initiatives and other functional reorganizations focused on aligning its cost base with revenues and recorded \$5.0 million in restructuring charges related to a global reduction in force across all functions. The Company completed the 2010 plan initiatives in 2012 and released the remaining \$0.1 million reserve to income during the second quarter of 2012.



**Table of Contents**

The following table presents an analysis of the restructuring reserves included in other accrued liabilities as of September 30, 2012:

(\$ in millions)	Severance	Other	Total
Balance as of December 31, 2011	\$	\$ 0.3	\$ 0.3
Charges and adjustments	0.9	(0.3)	0.6
Cash payments	(0.4)		(0.4)
Balance as of September 30, 2012	\$ 0.5	\$	\$ 0.5

**12. DISCONTINUED OPERATIONS**

The following table presents the operating results of the Company's discontinued operations for the three and nine-month periods ended September 30, 2012 and 2011, respectively:

Federal Signal Technologies (\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 24.9	\$ 26.4	\$ 87.0	\$ 78.6
Interest allocated to discontinued operations	1.7		4.8	
Other costs and expenses	33.1	27.3	99.9	84.6
Loss before income taxes	(9.9)	(0.9)	(17.7)	(6.0)
Income tax benefit	2.9	0.3	3.5	0.3
Loss from discontinued operations	\$ (7.0)	\$ (0.6)	\$ (14.2)	\$ (5.7)

  

China WOFE (\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$	\$	\$	\$ 0.2
Costs and expenses				(0.5)
Loss before income taxes				(0.3)
Income tax benefit				
Loss from discontinued operations	\$	\$	\$	\$ (0.3)

On June 21, 2012, the Company announced that it had signed a definitive agreement to sell the FSTech Group for \$110.0 million, subject to working capital adjustments. On September 4, 2012, the Company completed the disposition of the assets of the FSTech Group for \$110.0 million in cash, subject to working capital adjustments in favor of the buyer of \$5.9 million. The Company received \$82.1 million in cash at closing and the remaining \$22.0 million was placed into escrow as security for indemnification obligations provided by the Company pursuant to the sale agreement including defense and other costs associated with the Neology lawsuits discussed in Note 9. A significant portion of the escrow identified for general indemnification obligations will be held for a period of 18 months with the remaining general escrow funds to be held for 36 months. The portion of escrow associated with the Neology lawsuits and certain other indemnifications are to be held for a period of up to 48 months, but may be released earlier under certain conditions. If and when the relevant conditions associated with the Neology lawsuits and certain other contingencies are resolved and any remaining escrowed proceeds are released, the Company may recognize an adjustment to the loss from discontinued operations in its financial statements. The net carrying amount of the escrow receivable at September 30, 2012 is \$8.0 million and is classified in Deferred charges and other assets. As discussed in Note 5, the Company used \$75.0 million of the sale proceeds to repay obligations under its existing credit facilities pursuant to mandatory prepayment provisions under those facilities. The Company recorded a loss of \$35.7 million on disposal for the nine months ended September 30, 2012.

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

In accordance with ASC 360, the Company met held for sale criteria during the second quarter of 2012 and the FSTech Group was reported as a discontinued operation in the Company's condensed consolidated financial statements. In accordance with ASC 360-10, net assets held for sale with a carrying value of \$121.1 million were written down to fair value less cost to sell or \$97.6 million (fair value of \$101.0 million and costs to sell of \$3.4 million). This write-down resulted in a \$23.5 million loss for the six months ended June 30, 2012. The valuation methodology for the net assets held for sale was based upon a contract price which is an observable input (Level 2).

As required by ASC 350-20, goodwill of a reporting unit is to be tested for impairment between annual tests whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An interim test for goodwill and indefinite-lived asset impairment was completed for the FSTech Group during the second quarter of 2012. The Company determined that the trade names associated with the FSTech Group reporting unit were impaired and recorded an impairment charge of \$0.6 million. Goodwill was reviewed for impairment based on a two-step test. The first step, used to identify potential impairment, compared the fair value of the FSTech Group with its carrying amount. The carrying amount of the FSTech Group exceeded its fair value; therefore, the second

**Table of Contents**

step of the goodwill impairment test was required to be performed to measure the amount of impairment loss, if any. The second step compared the implied fair value of the FSTech Group goodwill with the carrying amount of that goodwill. The Company determined that the carrying amount of the goodwill was less than the implied fair value of that goodwill, and consequently was not required to recognize an impairment loss.

In accordance with ASC 205-20-45-6, *Allocation of Interest to Discontinued Operations*, the Company has allocated interest on debt that is required to be repaid as a result of a disposal transaction to discontinued operations. The condensed consolidated financial statements for all periods presented have been recast to present the operating results of the FSTech Group and previously divested or exited businesses as discontinued operations.

During the nine months ended September 30, 2012, the Company recorded a gain of \$0.1 million on discontinued operations associated with the liquidation of the assets of the China WOFE business.

In May 2012, the Company sold its Pearland, Texas facility, which was previously used by the Company's discontinued Pauluhn business, for proceeds of \$0.9 million and recorded a pre-tax gain of \$0.4 million.

The following table shows an analysis of assets and liabilities of discontinued operations as of September 30, 2012 and December 31, 2011:

(\$ in millions)	September 30, 2012	December 31, 2011
Current assets	\$ 1.3	\$ 37.4
Properties and equipment		2.7
Long-term assets	1.0	93.7
Financial service assets, net	0.6	1.0
<b>Total assets of discontinued operations</b>	<b>\$ 2.9</b>	<b>\$ 134.8</b>
Current liabilities	\$ 15.8	\$ 22.7
Long-term liabilities	6.7	20.7
Financial service liabilities		0.9
<b>Total liabilities of discontinued operations</b>	<b>\$ 22.5</b>	<b>\$ 44.3</b>

Included in current liabilities at September 30, 2012 and December 31, 2011 is \$1.9 million and \$2.2 million, respectively, related to environmental remediation at the Pearland, Texas facility, which was previously used by the Company's discontinued Pauluhn business. Included in long-term liabilities at September 30, 2012 and December 31, 2011 is \$4.9 million and \$5.1 million, respectively, relating to estimated product liability obligations of the North American refuse truck body business. Long-term liabilities include \$0.5 million of insurance reserves for estimated product liability and workers' compensation obligations of the FSTech Group.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and shall be read together with, the condensed consolidated financial statements and the accompanying notes contained in this Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2011. Information in MD&A is intended to assist the reader in obtaining an understanding of the condensed consolidated financial statements, information about the Company's business segments and how the results of those segments impact the Company's results of operations and financial condition as a whole, and how certain accounting principles affect the Company's condensed consolidated financial statements. The Company's results for interim periods are not necessarily indicative of annual operating results.

**Executive Summary**

The Company is a leading global manufacturer and supplier of (i) safety, security and communication equipment, (ii) street sweepers, sewer cleaners and other environmental vehicles and equipment, and (iii) vehicle-mounted, aerial platforms for fire fighting, rescue, electric utility and industrial uses. We also are a designer and supplier of technology-based products and services for the public safety market. In addition, we sell

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

parts and tooling, and provide service, repair, equipment rentals and training as part of a comprehensive offering to our customer base. We operate 13 manufacturing facilities in six countries around the world and provide our products and integrated solutions to municipal, governmental, industrial and commercial customers in approximately 100 countries in all regions of the world.

**Table of Contents****Results of Operations**

The following information summarizes our consolidated statements of operations and illustrates the key financial indicators used to assess our consolidated financial results:

(\$ in millions, except per share data)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Net sales	\$ 185.0	\$ 167.8	\$ 17.2	\$ 585.5	\$ 493.7	\$ 91.8
Cost of sales	139.4	131.3	8.1	445.4	384.0	61.4
Gross profit	45.6	36.5	9.1	140.1	109.7	30.4
Selling, engineering, general and administrative	33.2	28.0	5.2	100.8	88.0	12.8
Restructuring charge				0.8		0.8
Operating income	12.4	8.5	3.9	38.5	21.7	16.8
Interest expense	5.2	4.5	0.7	15.7	11.9	3.8
Debt settlement charges	1.9		1.9	3.5		3.5
Other (income) expense, net	(0.1)	0.5	(0.6)	0.2	0.4	(0.2)
Income before income taxes	5.4	3.5	1.9	19.1	9.4	9.7
Income tax expense	(1.0)	(0.2)	(0.8)	(1.9)	(2.8)	0.9
Income from continuing operations	4.4	3.3	1.1	17.2	6.6	10.6
Loss from discontinued operations and disposal, net of tax	(19.1)	(0.9)	(18.2)	(49.4)	(5.6)	(43.8)
Net (loss) income	\$ (14.7)	\$ 2.4	\$ (17.1)	\$ (32.2)	\$ 1.0	\$ (33.2)
<b>Other data:</b>						
Operating margin	6.7%	5.1%	1.6%	6.6%	4.4%	2.2%
Earnings per share continuing operations	\$ 0.07	\$ 0.05	\$ 0.02	\$ 0.28	\$ 0.11	\$ 0.17
Orders	\$ 187.7	\$ 194.9	\$ (7.2)	\$ 618.3	\$ 592.0	\$ 26.3
Depreciation and amortization	\$ 3.0	\$ 3.1	\$ (0.1)	\$ 9.6	\$ 9.6	\$
Net Sales						

Net sales increased \$17.2 million and \$91.8 million for the three and nine months ended September 30, 2012, respectively, compared to the respective prior-year periods, primarily as a result of increased shipments across most segments, favorable product mix and minor price increases, partially offset by lower export sales to certain Asian customers and unfavorable currency impacts.

*Cost of Sales*

Cost of sales increased \$8.1 million and \$61.4 million for the three and nine months ended September 30, 2012, respectively, compared to the respective prior-year periods, primarily as a result of increased sales volume, offset by favorable product mix and currency impacts. Net sales increased 10% and 19% for the three and nine months ended September 30, 2012 over the prior-year periods, while cost of sales increased 6% and 16%, respectively, compared to the respective prior year periods.

*Gross Profit*

Gross profit increased \$9.1 million and \$30.4 million for the three and nine months ended September 30, 2012, respectively, compared to the respective prior-year periods as a result of increased sales volume and an overall favorable change in product mix.

*Restructuring Charges*

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

During the nine months ended September 30, 2012, the Company recorded expenses of \$0.8 million primarily related to severance costs in the Safety and Security Systems Group. No restructuring charges were incurred during 2011.

### *Operating Income*

Operating income increased \$3.9 million and \$16.8 million in the three and nine months ended September 30, 2012, respectively, compared to the respective prior-year periods. The increase in operating income was primarily a result of higher sales volume and an overall favorable change in product mix.

## **Table of Contents**

### *Interest Expense*

Interest expense increased \$0.7 million and \$3.8 million for the three and nine months ended September 30, 2012, respectively, compared to the respective prior year periods, primarily due to an increase in interest rates on the Company's debt financing agreements entered into in February 2012, partially offset by interest expense allocated to discontinued operations of \$1.7 million and \$4.8 million for the three and nine months ended September 30, 2012.

### *Debt Settlement Charges*

In the first quarter of 2012, the Company recorded \$1.6 million of charges related to the termination of its prior debt agreements. On September 4, 2012, the Company expensed \$1.9 million of deferred debt issuance costs related to the \$75.0 million prepayment of the outstanding principal for the Term Loan and ABL Facility. The year-to-date charges totaled \$3.5 million and included \$1.0 million of make-whole interest payments and a write-off of deferred financing costs of \$2.5 million.

### *Effective Tax Rate*

The Company recognized an income tax provision of \$1.0 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, the Company recognized an income tax provision of \$1.9 million and \$2.8 million, respectively. The income tax provision for the three and nine months ended September 30, 2012 and 2011 primarily relates to tax expense at non-U.S. operations that are not in a cumulative loss position. Due to the Company's recent domestic cumulative losses for book purposes and the uncertainty of the realization of certain deferred tax assets, the Company continues to adjust its valuation allowance as the deferred tax assets increase or decrease, resulting in effectively no recorded tax benefit for domestic operating losses. The Company's effective tax rate was 19% and 6% for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, the Company's effective tax rate was 10% and 30%, respectively.

The Company's unrecognized tax benefits were \$4.1 million at September 30, 2012 and \$4.3 million at December 31, 2011, of which \$4.0 million and \$4.2 million at September 30, 2012 and December 31, 2011, respectively, are tax benefits that, if recognized, would reduce the annual effective tax rate. The Company expects the unrecognized tax benefits to decrease by \$1.4 million over the next twelve months. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense.

### *Income from Continuing Operations*

Income from continuing operations increased \$1.1 million and \$10.6 million for the three and nine months ended September 30, 2012, respectively, compared to the respective prior-year periods as a result of improved operating income, partially offset by higher interest expense and debt settlement charges.

### *Discontinued Operations and Disposal*

Loss from discontinued operations and disposal, net of tax was \$19.1 million and \$0.9 million for the three months ended September 30, 2012 and 2011, respectively, and \$49.4 million and \$5.6 million for the nine months ended September 30, 2012 and 2011, respectively. For further discussion of the loss from discontinued operations and disposals, see Note 12 of the condensed consolidated financial statements contained under Item I of Part I of this Form 10-Q.

### **Orders and Backlog**

Orders increased \$26.3 million or 4% for the nine months ended September 30, 2012 and were \$187.7 million and \$194.9 million for the three months ended September 30, 2012 and 2011, respectively. In the three months ended September 30, 2012, U.S. orders increased \$3.4 million or 3% and non-U.S. orders decreased \$10.6 million or 13% compared to the prior-year periods. In the nine months ended September 30, 2012, U.S. orders increased \$30.3 million or 9%, and non-U.S. orders decreased \$4.0 million or 2%, compared to the prior-year periods.

U.S. municipal and governmental orders increased \$14.0 million, or 26%, in the three months ended September 30, 2012 compared to the prior-year period, resulting from order increases of \$6.3 million for street sweepers, \$6.0 million for sewer cleaners, and \$1.7 million for municipal products within the Safety and Security Systems Group. U.S. municipal and governmental orders increased 17%, or \$29.8 million, for the nine months ended September 30, 2012. U.S. municipal and governmental orders in the Safety and Security Systems and Environmental Solutions Groups improved \$12.8 million and \$17.0 million, respectively, for the nine months ended September 30, 2012.





**Table of Contents**

U.S. industrial orders decreased 19% or \$10.6 million in the three months ended September 30, 2012 compared to the prior-year period, resulting from order decreases within the Environment Solutions Group of \$12.1 million, partially offset by modest order increases of \$1.0 million and \$0.5 million, respectively, for the Safety and Security Systems and Fire Rescue Groups. For the nine months ended September 30, 2012, U.S. industrial orders increased \$0.5 million, or 0.3%. Orders in the Safety and Security Systems and Fire Rescue Groups improved \$3.9 million and \$2.0 million, respectively, largely offset by decreases in the Environmental Solutions Group of \$5.4 million. The decrease in the nine-month period within the Environmental Solutions Group was primarily due to a decline in vacuum truck orders compared to the prior year.

For the three months ended September 30, 2012 and 2011 respectively, the Fire Rescue and Safety and Security Systems Groups had decreases in non-U.S. orders of \$7.8 million and \$3.1 million, respectively, while demand in the Environmental Solutions Group increased \$0.3 million. For the nine months ended September 30, 2012 and 2011 respectively, the Fire Rescue Group had increases in orders of \$1.5 million, the Safety and Security Systems Group had decreased orders of \$5.5 million, and orders within the Environmental Solutions Group were flat compared to the prior-year period.

Backlog was \$325.9 million at September 30, 2012, which was \$30.7 million higher than at December 31, 2011.

**Safety and Security Systems**

The following table summarizes the Safety and Security Systems Group's operating results as of and for the three and nine-month periods ended September 30, 2012 and 2011, respectively:

(\$ in millions)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 57.1	\$ 57.4	\$ (0.3)	\$ 182.1	\$ 170.9	\$ 11.2
Backlog	38.7	27.8	10.9	38.7	27.8	10.9
Net sales	57.8	52.0	5.8	173.2	161.0	12.2
Operating income	7.8	4.4	3.4	18.7	15.9	2.8
Operating margin	13.5%	8.5%	5.0%	10.8%	9.9%	0.9%
Depreciation and amortization	\$ 1.0	\$ 1.1	\$ (0.1)	\$ 3.2	\$ 3.3	\$ (0.1)

Orders of \$57.1 million in the third quarter decreased \$0.3 million compared to the same quarter in 2011. U.S. orders increased \$2.8 million due to improved municipal spending in the police, fire and outdoor warning markets and improvement in the industrial market. Non-U.S. orders declined \$3.1 million primarily due to a \$2.1 million order cancellation and weak demand in the European and export markets. Orders increased \$11.2 million or 7% for the nine months ended September 30, 2012 compared to the respective prior-year period. U.S. orders increased \$16.7 million, primarily as a result of increased municipal and governmental spending and strong industrial demand. Non-U.S. orders decreased \$5.5 million, driven primarily by weak demand in European and Asian markets.

Net sales increased \$5.8 million for the three months ended September 30, 2012 compared to the respective prior-year period. Higher industrial sales of \$4.0 million, improved domestic municipal shipments of \$2.3 million, market share gains in the police market of \$1.9 million and higher mining product sales of \$1.1 million were partially offset by lower exports of \$2.0 million and exchange rate impacts of 2.5% of sales. Net sales increased \$12.2 million or 8% for the nine months ended September 30, 2012 compared to the respective prior-year period. U.S. sales grew by \$4.0 million due to market share gains in police and fire markets, \$2.6 million due to increased warning system shipments, \$1.4 million due to strong industrial sales, and minor price increases. International sales were lower by \$4.2 million due to lower export sales to certain Asian customers and unfavorable currency impacts of approximately 2.0% of sales.

Cost of sales increased \$1.9 million and \$5.0 million for the three and nine months ended September 30, 2012 compared to the respective prior-year periods. The increases were at a lower percentage of sales rate than the increase in sales due to higher absorption of fixed overhead costs, higher growth rates in higher margin industrial divisions and product lines, and material cost reductions on certain electrical components, as well as a 2% favorable exchange rate impact. In addition, cost of sales was unfavorably impacted by \$0.6 million and \$2.0 million higher charges for inventory obsolescence reserves for the three and nine months ended September 30, 2012, respectively, partially offset by \$0.4 million lower warranty provisions in the third quarter of 2012 compared to the prior year.

Operating income increased \$3.4 million for the three months ended September 30, 2012 compared to the respective prior-year period, primarily due to higher sales volumes as well as higher gross profit, which more than offset higher operating expenses to support the higher sales levels. Operating income increased \$2.8 million for the nine months ended September 30, 2012 compared to the respective prior-year period due to higher sales of \$12.2 million, slight price increases in several divisions, and lower warranty expense of \$0.4 million and the other reductions in

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

cost of sales noted above, which were partially offset by higher charges for inventory reserves of \$2.0 million. Improvements in gross margin were partially offset by higher operating expenses to support higher sales levels. In addition, the Safety and Security Systems Group recorded \$0.9 million of restructuring charges in the nine months ended September 30 2012, while no restructuring charges were recorded during the respective prior year period.

**Table of Contents****Fire Rescue**

The following table summarizes the Fire Rescue Group's operating results as of and for the three and nine-month periods ended September 30, 2012 and 2011, respectively:

(\$ in millions)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 34.7	\$ 42.0	\$ (7.3)	\$ 112.3	\$ 108.8	\$ 3.5
Backlog	101.3	95.7	5.6	101.3	95.7	5.6
Net sales	25.6	22.2	3.4	90.7	68.1	22.6
Operating income	1.9	0.2	1.7	4.4	1.7	2.7
Operating margin	7.4%	0.9%	6.5%	4.9%	2.5%	2.4%
Depreciation and amortization	\$ 0.6	\$ 0.7	\$ (0.1)	\$ 1.9	\$ 1.9	\$

Orders of \$34.7 million in the third quarter decreased \$7.3 million compared to the same quarter in 2011. The decrease is due to a decline in the average order size for fire-lift products from customers in Asia compared to the prior year, when chassis orders were steadily on the rise. Orders increased \$3.5 million for the nine months ended September 30, 2012 compared to the respective prior-year period, primarily as result of strong demand for fire-lift products in Asia and strong demand for industrial and rental products in Australia.

Net sales increased \$3.4 million and \$22.6 million for the three and nine months ended September 30, 2012 compared to the respective prior-year periods. For the three months ended September 30, 2012, net sales increased \$4.8 million as a result of increased Asian and Australian business together with some increased shipments to European markets, and \$1.6 million of higher pricing attributable to sales commissions, partially offset by unfavorable currency impacts of \$3.2 million. The strong backlog and improvements in manufacturing processes also contributed to the growth in sales. Year-to-date, net sales increased \$22.6 million, primarily due to sales volumes of \$24.5 million, higher pricing attributable to sales commissions of \$3.3 million, and a favorable product mix of \$4.3 million, partially offset by unfavorable currency impacts of \$9.4 million.

Cost of sales increased \$0.3 million and \$16.9 million for the three and nine months ended September 30, 2012 compared to the respective prior-year periods. For the three months ended September 30, 2012, the cost of sales increase was primarily due to increased sales volume of \$3.8 million, offset by operational improvement and product mix impacts of \$1.1 million, and currency impacts of \$2.4 million. Year-to-date, the cost of sales increase was primarily due to increased sales volume of \$19.3 million and product mix of \$5.0 million, partially offset by currency impacts of \$7.4 million.

Operating income increased \$1.7 million and \$2.7 million for the three and nine months ended September 30, 2012, compared to the respective prior-year periods. For the three months ended September 30, 2012, operating income increased due to higher sales volumes of \$1.0 million, and improved product mix into higher margin products of \$1.4 million, partially offset by higher Selling, General, and Administrative (SG&A) expenses of \$0.5 million and unfavorable currency impacts of \$0.2 million. For the nine months ended September 30, 2012, compared to the respective prior-year period, operating income increased primarily due to higher sales volumes of \$5.3 million, partially offset by higher SG&A expenses of \$1.5 million, unfavorable product mix of \$0.7 million, and unfavorable currency impacts of \$0.5 million.

**Environmental Solutions**

The following table summarizes the Environmental Solutions Group's operating results as of and for the three and nine-month periods ended September 30, 2012 and 2011, respectively:

(\$ in millions)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 95.9	\$ 95.5	\$ 0.4	\$ 323.9	\$ 312.3	\$ 11.6
Backlog	185.9	130.3	55.6	185.9	130.3	55.6
Net sales	101.6	93.6	8.0	321.6	264.6	57.0
Operating income	9.3	7.7	1.6	33.8	17.8	16.0
Operating margin	9.2%	8.2%	1.0%	10.5%	6.7%	3.8%
Depreciation and amortization	\$ 1.3	\$ 1.3	\$	\$ 3.9	\$ 3.8	\$ 0.1

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Orders increased \$0.4 million for the three months ended September 30, 2012 compared to the respective prior-year period. U.S. orders increased \$0.1 million from the prior-year period primarily due to increases in sewer cleaners of \$6.1 million, sweepers of \$6.0 million, and waterblasters of \$0.8 million, partially offset by declines in vacuum trucks of \$12.5 million. Non-U.S. orders increased \$0.3 million from the prior-year period due to market increases in Canada and Asia, partially offset by declines in Mexico and Europe.

**Table of Contents**

Year-to-date orders of \$323.9 million were up from the previous year by \$11.6 million, or 4%. U.S. orders were up 4%, or \$11.6 million, primarily as a result of increases in orders for municipal sewer cleaners of \$13.8 million, waterblasters of \$5.8 million, and sweepers of \$2.0 million, partially offset by declines in industrial orders of \$11.2 million. Non-U.S. orders remained flat at \$63.9 million compared to the prior year.

Net sales increased \$8.0 million and \$57.0 million for the three and nine months ended September 30, 2012 compared to the respective prior-year periods. U.S. sales increased \$3.0 million for the three months primarily resulting from municipal sewer cleaner shipments, which is consistent with the increased order volume. Non-U.S. sales for the three months were up \$5.0 million due to strength in Canada, partially offset by declines in Europe and Mexico. U.S. sales for the nine months were up \$44.7 million due to increases across all product lines. Non-U.S. sales for the nine months were up \$12.3 million resulting from large backlogs, despite flat non-U.S. orders.

Cost of sales increased \$6.0 million and \$39.5 million for the three and nine months ended September 30, 2012 compared to the respective prior-year periods. Nine-month cost of sales increased 18% over the respective prior-year period, while nine-month sales increased 22%, indicating favorable product mix (more sewer cleaners versus street sweepers).

Operating income increased \$1.6 million and \$16.0 million for the three and nine months ended September 30, 2012, compared to the respective prior-year periods. Operating income increases are a result of higher gross margins of \$2.0 million and \$17.5 million, respectively, partially offset by increased SG&A expenses of \$0.4 million and \$1.5 million, respectively. The increase in SG&A expenses relates to additional commission expenses associated with increased orders.

**Corporate Expenses**

Corporate expenses were \$6.6 million and \$3.8 million for the three months ended September 30, 2012 and 2011, respectively. The increase primarily was due to higher incentive compensation expense of \$1.1 million in 2012 and a \$1.3 million reduction in an insurance reserve associated with carrier paid claims in 2011.

Corporate expenses were \$18.4 million and \$13.8 million for the nine months ended September 30, 2012 and 2011, respectively. The increase primarily was due to higher incentive compensation expense of \$2.8 million and a \$1.3 million reduction in an insurance reserve associated with carrier-paid claims in 2011.

Corporate expenses included depreciation and amortization expense of \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2012, respectively, and \$0.0 million and \$0.6 million for the comparable periods in 2011, respectively.

**Seasonality of Company's Business**

Certain of the Company's businesses are susceptible to the influences of seasonal buying or delivery patterns. The Company tends to have lower sales in the first calendar quarter compared to other quarters as a result of these influences.

**Financial Position, Liquidity and Capital Resources**

The Company utilizes its operating cash flow and available borrowings under its Term Loan and ABL Facility for the working capital needs of its operations, capital expenditures, strategic acquisitions of companies operating in markets related to those already served, pension contributions, debt repayments, share repurchases and dividends.

The following table summarizes the Company's cash flows for the nine-month periods ended September 30, 2012 and 2011:

(\$ in millions)	Nine months ended September 30,	
	2012	2011
Net cash (used for) provided by operating activities	\$ (2.3)	\$ 0.8
Purchases of properties and equipment	(9.2)	(10.6)
Proceeds from sales of properties, plant and equipment	1.3	1.2
Increase in restricted cash	(1.5)	

Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Proceeds from sale of FSTech Group	82.1	
Borrowing activity, net	(65.1)	(34.8)
Payments of debt financing fees	(6.9)	(2.3)
Net cash used for discontinued financing activities	(0.9)	(0.3)
Cash dividends paid to shareholders		(3.7)
Other, net	2.1	0.8
Decrease in cash and cash equivalents	\$ (0.4)	\$ (48.9)

## **Table of Contents**

Cash used for operating activities for the nine months ended September 30, 2012 was \$2.3 million compared to cash provided of \$0.8 million for the respective prior-year period. The change is primarily due to increased inventory levels to support volume growth. The sale proceeds from the FSTech Group were used to pay down \$75.0 million of debt during the same period. The \$75.0 million debt repayment was included in net borrowing activity.

On February 22, 2012, the Company entered into a Credit Agreement, by and among the Company, as borrower and General Electric Capital Corporation, as a co-collateral agent, and Wells Fargo Capital Finance, LLC, as administrative agent and co-collateral agent, providing the Company with a new \$100 million secured credit facility (the "ABL Facility").

The ABL Facility is a five-year asset-based revolving credit facility pursuant to which up to \$100 million initially will be available, with the right, subject to certain conditions, to increase the availability under the facility by up to an additional \$25 million. The ABL Facility provides for loans and letters of credit in an amount up to the aggregate availability under the facility subject to meeting certain borrowing base conditions, with a sub-limit of \$50 million for letters of credit. Borrowings under the ABL Facility bear interest, at the Company's option, at a base rate or a LIBOR rate, plus, in each case, an applicable margin. The applicable margin ranges from 1.00% to 2.75% for base rate borrowings and 1.75% to 3.50% for LIBOR borrowings. The Company must also pay a commitment fee to the facility lenders equal to 0.50% per annum on the unused portion of the ABL Facility along with other standard fees. Letter of credit fees are payable on outstanding letters of credit in an amount equal to the applicable LIBOR margin plus other customary fees.

The Company is allowed to prepay in whole or in part advances under the ABL Facility without penalty or premium other than customary breakage costs with respect to LIBOR loans.

The ABL Facility requires that the Company, on a consolidated basis, maintain a minimum monthly fixed charge coverage ratio, along with other customary restrictive covenants, certain of which are subject to materiality thresholds. The Company was in compliance with all of its debt covenants as of September 30, 2012.

The obligations under the ABL Facility are secured by (i) a first priority security interest in the Company's and its domestic subsidiaries accounts, inventory, chattel paper, payment intangibles, cash and cash equivalents and other working capital assets (the "ABL First Priority Collateral") and (ii) a second priority security interest in all other now or hereafter acquired domestic property and assets, the stock or other equity interests in each of the domestic subsidiaries and certain of the first-tier foreign subsidiaries, subject to certain exclusions.

The Company's obligations under the ABL Facility are guaranteed by certain of the Company's domestic subsidiaries.

On February 22, 2012, the Company also entered into a Financing Agreement by and among the Company, as borrower, certain subsidiaries of the Company, as guarantors, the lenders party thereto (the "Term Lenders") and TPG Specialty Lending, Inc., as administrative agent, collateral agent and sole lead arranger, pursuant to which the Term Lenders agreed to provide the Company with a \$215 million term loan (the "Term Loan").

The Term Loan is a five-year, secured term loan maturing on February 22, 2017. Installment payments under the Term Loan do not commence until March 2013. The Term Loan allows for mandatory prepayments in certain specified situations. Except in these certain specified situations, the Term Loan is not repayable in the first 12 months of the term and thereafter is subject to the following prepayment premium; (i) 2.75% in months 13-24, (ii) 2.00% in months 25-36 and (iii) nothing thereafter. These provisions are subject to change upon the occurrence of certain specified events.

The Term Loan will bear interest, at the Company's option, at a base rate or adjusted LIBOR rate, plus, in each case, an applicable margin. The applicable margin ranges from 9.00% to 10.00% for base rate borrowings and 10.00% to 11.00% for LIBOR borrowings. The Company is required to pay certain customary fees in connection with the Term Loan.

The Term Loan requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio, maximum capital expenditures, minimum liquidity, and maximum leverage ratio. The Term Loan has other restrictive covenants which are substantively similar to those applicable to the ABL Facility. The Company was in compliance with all of its debt covenants as of September 30, 2012.

The obligations under the Term Loan are secured by (i) a first priority security interest in all now or hereafter acquired domestic property and assets (excluding the ABL First Priority Collateral), the stock or other equity interests in each of the domestic subsidiaries and certain of the first-tier foreign subsidiaries, subject to certain exclusions, and (ii) a second priority security interest in the ABL First Priority Collateral.

The Company's obligations under the Term Loan are guaranteed by certain of the Company's domestic subsidiaries.



## **Table of Contents**

Under the Term Loan, dividends shall be permitted only if the following conditions are met:

No default or event of default shall exist or shall result from such payment;

The fixed charge ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), not less than 1.50 to 1.00; and

The leverage ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), less than 2.00 to 1.00.

The Company used the proceeds from the ABL Facility and the Term Loan to (i) repay outstanding balances under the Company's existing \$240 million secured revolving credit facility, dated as of April 25, 2007, as amended, which was to mature on April 25, 2012 (the "Prior Credit Agreement"); (ii) retire the Company's private placement notes issued pursuant to the Note Purchase Agreement, dated as of June 1, 2009, as amended, and pursuant to the Master Note Purchase Agreement dated as of June 1, 2003, as amended (together, the "Prior Note Purchase Agreements"); (iii) finance the ongoing general corporate needs of the Company and its subsidiaries; and (iv) pay fees and expenses associated with repayment of amounts due under the Prior Credit Agreement and the Prior Note Purchase Agreements, including the payment of approximately \$1.0 million in resulting breakage fees and premiums under the Prior Credit Agreement and Prior Note Purchase Agreements, and pay fees and expenses associated with the ABL Facility and the Term Loan.

In accounting for the classification of its outstanding debt as of December 31, 2011, the Company considered the guidance in ASC 470-10-45-14. As the Company had effectively refinanced short-term debt on a long-term basis subsequent to the condensed consolidated balance sheet date, the amounts outstanding under the Prior Credit Agreement and the Prior Note Purchase Agreements as of December 31, 2011 were reflected as a component of long-term borrowings and capital lease obligations on the condensed consolidated balance sheet.

As of December 31, 2011, \$180.0 million was drawn on the Prior Credit Agreement leaving available borrowings of \$49.1 million that included \$32.5 million of capacity used for existing letters of credit.

On September 4, 2012, the Company prepaid \$65.0 million of its outstanding principal balance of its Term Loan debt at par with no prepayment penalty and related accrued interest of \$0.1 million with net proceeds from the sale of FSTech. This prepayment was executed in accordance with the terms of the Financing Agreement. The Company also prepaid \$10.0 million of debt drawn under the ABL Facility on the same date with net proceeds from the sale of FSTech.

As of September 30, 2012, the available borrowing base under the ABL Facility was \$62.9 million. As of September 30, 2012, there was \$6.9 million in cash drawn and \$31.3 million of undrawn letters of credit under the ABL Facility, reducing net availability for borrowings to \$24.8 million.

As of September 30, 2012, \$2.0 million was drawn against the Company's non-U.S. lines of credit which provide for borrowings up to \$14.1 million.

The Financing Agreement included a provision that if as of September 30, 2012, the outstanding ABL Facility debt plus the outstanding Term Loan debt was less than \$170.0 million, the installment payments required against the Term Loan due on March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013 would be reduced on a pro rata basis, dollar-for-dollar by the amount the outstanding ABL Facility debt plus the outstanding Term Loan debt was less than \$170.0 million as of September 30, 2012. The balance of the ABL Facility debt plus the outstanding Term Loan debt was \$156.0 million on September 30, 2012. The resulting variance of \$14.0 million between the target of \$170.0 million and the actual balance of \$156.0 million will reduce the required 2013 quarterly installment payments against the Term Loan by \$3.5 million per quarter.

Aggregate maturities of total borrowings amount to approximately \$2.5 million in 2012, \$8.0 million in 2013, \$32.6 million in 2014, \$32.6 million in 2015, \$32.4 million in 2016, and \$51.8 million thereafter. These maturities primarily reflect the payment terms outlined in the ABL Facility and the Term Loan. The fair values of aggregated borrowings were \$185.2 million and \$221.4 million at September 30, 2012 and December 31, 2011, respectively. Included in current maturities are \$2.0 million of other non-U.S. lines of credit, \$5.7 million of Term Loan, and \$0.4 million of capital lease obligations.

## Edgar Filing: FEDERAL SIGNAL CORP /DE/ - Form 10-Q

Upon execution of the Company's new debt agreements in February 2012, the remaining unamortized deferred financing costs related to the Prior Credit Agreement and the Prior Note Purchase Agreement were written off. In the first quarter of 2012, the Company recorded \$1.6 million of costs related to the termination of its prior debt agreements. The costs included \$1.0 million of make-whole interest payments and a write-off of deferred financing costs of \$0.6 million.

The Company has incurred \$8.3 million of debt issuance costs associated with the execution of its new debt agreements through September 30, 2012, of which \$6.9 million was paid in 2012. Financing costs incurred related to the new debt agreements are deferred and amortized over the remaining life of the new debt. On September 4, 2012, the Company expensed \$1.9 million of deferred debt

## **Table of Contents**

issuance costs related to the \$75.0 million prepayment of the outstanding principal for the Term Loan and ABL Facility. At September 30, 2012 and December 31, 2011, deferred financing fees totaled \$5.1 million and \$1.0 million, respectively, and are included in deferred charges and other assets on the condensed consolidated balance sheet.

Of the total \$8.3 million debt financing costs incurred to date associated with the execution of the new debt agreements, the Company paid \$6.9 million in the nine months ended September 30, 2012. In the nine months ended September 30, 2011, the Company paid \$2.3 million in fees associated with the prior debt agreements. In accordance with ASC 470-50, the debt and third-party fees related to the Prior Credit Agreement and the Prior Note Purchase Agreement were amortized over the term of debt. As previously indicated, any remaining debt financing fees associated with the prior debt agreements have been written off to expense.

The weighted average interest rate on short-term borrowings was 4.03% at September 30, 2012.

The Company anticipates that capital expenditures for 2012 will approximate \$13.0 million, and will be restricted to no more than \$20.0 million under the terms of the Term Loan. The Company believes that its financial resources and major sources of liquidity, including cash flow from operations and borrowing capacity, will be adequate to meet its operating and capital needs in addition to its financial commitments.

## **Contractual Obligations and Commercial Commitments**

Short-term borrowings decreased to \$2.0 million at September 30, 2012 from \$9.0 million at December 31, 2011. Total long-term borrowings, including a current portion of the long-term borrowing, decreased to \$157.9 million at September 30, 2012 from \$214.1 million at December 31, 2011. See the Financial Condition, Liquidity and Capital Resources section of Part I, Item 2 of this Form 10-Q for more information.

Changes to the Company's accrual for product warranty claims in the nine months ended September 30, 2012 are discussed in Note 9 of the condensed consolidated financial statements included in Item 1 of Part I of this Form 10-Q.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

See Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes in our exposure to market risk since December 31, 2011.

## **Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, the Company's management, with the participation of the Company's Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2012. Based on that evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012. As a matter of practice, the Company's management continues to review and document internal control and procedures for financial reporting. From time to time, the Company may make changes aimed at enhancing the effectiveness of the controls and to ensure that the systems evolve with the business. During the quarter ended September 30, 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective October 10, 2012, Braden N. Waverley was appointed to the position of Interim Chief Financial Officer following the resignation of William G. Barker, III, who was the Chief Financial Officer.

## **Part II. Other Information**

### **Item 1. Legal Proceedings**

The information set forth under the heading *Legal Proceedings* in Note 9 of the condensed consolidated financial statements included in Item 1 of Part I of this Form 10-Q is incorporated herein by reference.

### **Item 1A. Risk Factors**

There have been no material changes in risk factors as described in Item 1A, *Risk Factors*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.



**Table of Contents**

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

**Restrictions upon the Payment of Dividends**

Under the Company's new Term Loan, dividends shall be permitted only if the following conditions are met:

No default or event of default shall exist or shall result from such payment;

The fixed charge ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), not less than 1.50 to 1.00; and

The leverage ratio of the Company and its subsidiaries shall be, both before and after the dividend payment (on a pro forma basis), less than 2.00 to 1.00.

**Item 5. Other Information**

On November 9, 2012, the Company issued a press release announcing its financial results for the three and nine months ended September 30, 2012. The full text of the press release is included as Exhibit 99.1 to this Form 10-Q.

## **Table of Contents**

### **Item 6. Exhibits**

10.1	Amendment No. 1, dated as of August 3, 2012, to the Asset Purchase Agreement dated as of June 20, 2012, by and among Federal Signal Corporation, a Delaware corporation, and certain subsidiaries of Federal Signal Corporation identified therein, in favor of 3M Company, a Delaware corporation, and one or more subsidiaries of 3M Company identified therein. Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed September 7, 2012.
10.2	Amendment No. 2, dated as of September 4, 2012, to the Asset Purchase Agreement dated as of June 20, 2012, by and among Federal Signal Corporation, a Delaware corporation, and certain subsidiaries of Federal Signal Corporation identified therein, in favor of 3M Company, a Delaware corporation, and one or more subsidiaries of 3M Company identified therein. Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed September 7, 2012.
31.1*	CEO Certification under Section 302 of the Sarbanes-Oxley Act
31.2*	CFO Certification under Section 302 of the Sarbanes-Oxley Act
32.1*	CEO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act
32.2*	CFO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act
99.1*	Press Release dated November 9, 2012
101.INS (**)	XBRL Instance Document
101.SCH (**)	XBRL Taxonomy Extension Schema Document
101.CAL (**)	XBRL Taxonomy Calculation Linkbase Document
101.DEF (**)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (**)	XBRL Taxonomy Label Linkbase Document
101.PRE (**)	XBRL Taxonomy Presentation Linkbase Document

\* Filed herewith

\*\* In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed furnished, but not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under that section.

Items 3 and 4 are not applicable and have been omitted.

**Table of Contents**

SIGNATURES

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

Federal Signal Corporation

Date: November 9, 2012

By: /s/ Braden N. Waverley  
Braden N. Waverley  
Interim Chief Financial Officer

32