

FEDERAL SIGNAL CORP /DE/
Form 10-Q
May 06, 2013
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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 March 31, 2013

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

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1415 West 22nd Street,

Oak Brook, Illinois
(Address of principal executive offices)

60523
(Zip code)

Registrant's telephone number including area code: (630) 954-2000

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2013, the number of shares outstanding of the registrant's common stock was 62,435,439.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q) report is being filed by Federal Signal Corporation and its subsidiaries (referred to collectively as the Company herein, unless the context otherwise indicates) with the Securities and Exchange Commission (SEC), and includes comments made by management that may contain words such as may, will, believe, expect, anticipate, intend, plan, project, estimate, 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 Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and 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; our ability to expand our business through successful future acquisitions; and 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*, of the Company s Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 15, 2013. 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

The Company makes its 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 website (<http://www.federsignal.com>) as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. Information on our website does not constitute part of this Form 10-Q. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically. All materials that we file with, or furnish to, the SEC may also be read or copied at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****FEDERAL SIGNAL CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(in millions, except per share data)	Three Months Ended	
	2013	2012
Net sales	\$ 199.8	\$ 196.1
Cost of sales	153.0	150.8
Gross profit	46.8	45.3
Selling, engineering, general and administrative expenses	34.7	34.1
Restructuring charges		0.9
Operating income	12.1	10.3
Interest expense	4.5	5.1
Debt settlement charges	8.7	1.6
Other income, net	(0.2)	(0.2)
Income (loss) before income taxes	(0.9)	3.8
Income tax expense	(0.2)	(0.7)
Income (loss) from continuing operations	(1.1)	3.1
Gain (loss) from discontinued operations and disposal, net of income tax expense of \$0.0 and \$0.1, respectively	0.5	(4.2)
Net loss	\$ (0.6)	\$ (1.1)
Basic earnings (loss) per share:		
Earnings (loss) from continuing operations	\$ (0.02)	\$ 0.05
Gain (loss) from discontinued operations and disposal, net of taxes	0.01	(0.07)
Net loss per share	\$ (0.01)	\$ (0.02)
Diluted earnings (loss) per share:		
Earnings (loss) from continuing operations	\$ (0.02)	\$ 0.05
Gain (loss) from discontinued operations and disposal, net of taxes	0.01	(0.07)
Net loss per share	\$ (0.01)	\$ (0.02)
Weighted average common shares outstanding:		
Basic	62.4	62.2
Diluted	62.4	62.2

See notes to condensed consolidated financial statements.

Table of Contents**FEDERAL SIGNAL CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(in millions)	Three Months Ended	
	2013	2012
Net loss	\$ (0.6)	\$ (1.1)
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(5.7)	5.2
Change in unrecognized losses related to pension benefit plans, net of tax expense (benefit) of \$0.5 and (\$0.1), respectively	3.3	0.9
Unrealized net gain (loss) on derivatives, net of tax expense (benefit) of (\$0.2) and \$0.1, respectively	(0.6)	0.4
Total other comprehensive income (loss)	(3.0)	6.5
Comprehensive income (loss)	\$ (3.6)	\$ 5.4

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12.8	\$ 29.7
Restricted cash		1.0
Accounts receivable, net of allowances for doubtful accounts of \$2.4 at both dates	104.4	96.9
Inventories	125.8	119.9
Prepaid expenses	13.0	13.8
Other current assets	12.0	5.1
Current assets of discontinued operations	0.9	0.8
Total current assets	268.9	267.2
Properties and equipment	58.6	59.3
Other assets:		
Goodwill	270.1	272.3
Intangible assets, net	0.6	0.7
Deferred charges and other assets	2.5	12.5
Long-term assets of discontinued operations	1.1	1.2
Total assets	\$ 601.8	\$ 613.2
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	\$	\$ 0.3
Current portion of long-term borrowings and capital lease obligations	6.1	4.7
Accounts payable	53.9	52.5
Customer deposits	13.7	13.1
Deferred revenue	2.9	3.1
Deferred tax liability	10.6	10.6
Accrued liabilities:		
Compensation and withholding taxes	17.1	25.8
Other	32.6	33.1
Current liabilities of discontinued operations	4.8	6.4
Total current liabilities	141.7	149.6
Long-term borrowings and capital lease obligations	154.5	152.8
Long-term pension and other postretirement benefit liabilities	81.4	84.1
Deferred gain	19.0	19.4
Deferred tax liabilities	36.0	35.8
Other long-term liabilities	17.1	16.0
Long-term liabilities of discontinued operations	8.2	8.6
Total liabilities	457.9	466.3
Shareholders' equity:		
Common stock, \$1 par value per share, 90.0 shares authorized, 63.4 shares issued at both dates	63.4	63.4
Capital in excess of par value	171.7	171.1
Retained earnings	8.3	8.9
Treasury stock, 1.0 shares at both dates, at cost	(16.4)	(16.4)

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Accumulated other comprehensive loss	(83.1)	(80.1)
Total shareholders' equity	143.9	146.9
Total liabilities and shareholders' equity	\$ 601.8	\$ 613.2

See notes to condensed consolidated financial statements.

Table of Contents**FEDERAL SIGNAL CORPORATION****CONSOLIDATED STATEMENTS 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			(1.1)			(1.1)
Total other comprehensive income					6.5	6.5
Stock-based payments:						
Non-vested stock and options		0.7				0.7
Stock awards				(0.2)		(0.2)
Balance at March 31, 2012	\$ 63.1	\$ 168.4	\$ 35.3	\$ (16.3)	\$ (69.9)	\$ 180.6
Balance at December 31, 2012	\$ 63.4	\$ 171.1	\$ 8.9	\$ (16.4)	\$ (80.1)	\$ 146.9
Net loss			(0.6)			(0.6)
Total other comprehensive loss					(3.0)	(3.0)
Stock-based payments:						
Non-vested stock and options		0.6				0.6
Balance at March 31, 2013	\$ 63.4	\$ 171.7	\$ 8.3	\$ (16.4)	\$ (83.1)	\$ 143.9

See notes to condensed consolidated financial statements.

Table of Contents**FEDERAL SIGNAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in millions)	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net loss	\$ (0.6)	\$ (1.1)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
(Gain) loss on discontinued operations and disposal	(0.5)	4.2
Depreciation and amortization	3.4	3.2
Debt settlement charges	4.5	0.6
Stock-based compensation expense	0.6	0.7
Pension expense, net of funding	(0.1)	(0.8)
Provision for doubtful accounts		0.2
Deferred income taxes, including changes in valuation allowance	0.5	(3.7)
Changes in operating assets and liabilities, net of effects from dispositions of companies	(21.0)	7.7
Net cash provided by (used for) continuing operating activities	(13.2)	11.0
Net cash used for operating activities of discontinued operations	(1.7)	(8.4)
Net cash provided by (used for) operating activities	(14.9)	2.6
Investing activities:		
Purchases of properties and equipment	(4.4)	(3.4)
Proceeds from sales of properties and equipment	1.2	0.5
Decrease (increase) in restricted cash	1.0	(2.1)
Net cash used for continuing investing activities	(2.2)	(5.0)
Net cash provided by investing activities of discontinued operations		
Net cash used for investing activities	(2.2)	(5.0)
Financing activities:		
Increase (decrease) in revolving lines of credit	81.5	(162.8)
Increase in short-term borrowings, net	0.6	9.7
Payments on short-term borrowings	(0.9)	(16.0)
Proceeds from issuance of long-term borrowings	75.0	215.0
Payments on long-term borrowings	(149.2)	(33.5)
Payments of debt financing fees	(6.1)	(6.2)
Other, net	0.1	0.7
Net cash provided by continuing financing activities	1.0	6.9
Net cash used for financing activities of discontinued operations		(0.9)
Net cash provided by financing activities	1.0	6.0
Effects of foreign exchange rate changes on cash and cash equivalents	(0.8)	0.3
Increase (decrease) in cash and cash equivalents	(16.9)	3.9
Cash and cash equivalents at beginning of period	29.7	9.5
Cash and cash equivalents at end of period	\$ 12.8	\$ 13.4

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 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 Federal Signal Corporation and its subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (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 the information presented is not misleading. These condensed consolidated financial statements have been prepared in accordance with the Company's accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2012, and should be read in conjunction with those consolidated financial statements and the notes thereto.

These statements include all adjustments, consisting of normal recurring accruals, that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. 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, our first, second and third quarters are labeled as ending on March 31, June 30 and September 30, respectively. 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 11 Discontinued Operations, the Company completed the disposition of the assets of its Federal Signal Technologies (FSTech) Group in the third quarter of 2012. The condensed consolidated financial statements and footnotes for the three months ended March 31, 2012 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, including reclassifications for discontinued operations as previously discussed.

Recent Accounting Pronouncements and Accounting Changes

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This update further clarified the guidance previously issued under ASU No. 2011-11, which required both gross and net presentation of offsetting assets and liabilities. The new requirements were effective retrospectively for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. As the guidance impacted disclosure requirements only, the Company's adoption of the guidance on January 1, 2013 did not have an impact on its results of operations, financial position or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The guidance was issued in response to ASU No. 2011-05 and required disclosure of the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items of net income, if the amounts reclassified are required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period. For other amounts not required to be reclassified to net income in their entirety in the same reporting period, or when a portion of the amount is reclassified to a balance sheet account instead of directly to income or expense, a cross reference to the related footnote disclosures for additional information should be provided. The new requirements were effective prospectively for fiscal years beginning on or after December 15, 2012, and for interim periods within those fiscal years. As the guidance impacted disclosure requirements only, the Company's adoption of the guidance on

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January 1, 2013 did not have an impact on its results of operations, financial position or cash flows. For additional information, see Note 8 Shareholders' Equity.

Table of Contents**FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Unaudited)**

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. This update provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this update is fixed at the reporting date, except for obligations addressed within existing U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The new requirements are effective for fiscal years that begin on or after December 15, 2013, and for interim periods within those fiscal years. Retrospective presentation for all comparative periods presented is required. The Company expects that the adoption of this guidance will not have a material impact on its results of operations, financial position or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830), Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This guidance clarifies the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. The new requirements are effective prospectively for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The Company expects that the adoption of this guidance will not have a material impact on its 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, income tax contingency accruals and valuation allowances, workers' compensation and product warranty accruals, asset impairment, 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, 2012.

NOTE 2 INVENTORIES

(in millions)	March 31, 2013	December 31, 2012
Raw materials	\$ 54.5	\$ 56.8
Work in progress	29.3	26.8
Finished goods	42.0	36.3
Total inventories	\$ 125.8	\$ 119.9

NOTE 3 DEBT

(in millions)

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	March 31, 2013	December 31, 2012
Senior Secured Credit Facility:		
Revolving credit facility	\$ 84.0	\$
Term loan	75.0	
February 2012 Financing:		
ABL facility		6.7
Term loan		149.1
Capital lease obligations	1.6	1.7
Total long-term borrowings and capital lease obligations, including current portion		
	160.6	157.5
Less: Current maturities	(5.6)	(4.2)
Less: Current capital lease obligations	(0.5)	(0.5)
Total long-term borrowings and capital lease obligations, net	\$ 154.5	\$ 152.8

Table of Contents**FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Unaudited)**

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

	March 31, 2013		December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Short-term debt	\$	\$	\$ 0.3	\$ 0.3
Long-term debt (1)	160.6	160.6	157.5	208.2

(1) Long-term debt includes current portions of long-term debt and current portions of capital lease obligations of \$6.1 million and \$4.7 million as of March 31, 2013 and December 31, 2012, respectively.

On February 22, 2012, the Company entered into a Credit Agreement by and among the Company, as borrower, 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 \$100.0 million secured credit facility (the "ABL Facility"). 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 \$215.0 million term loan (the "2012 Term Loan").

On March 13, 2013, the Company entered into a new Credit Agreement by and among the Company, as borrower, the lenders referred to therein, as lenders, Wells Fargo Bank, National Association, as administrative agent, swingline lender and issuing lender, General Electric Capital Corporation, as syndication agent, and Wells Fargo Securities, LLC and GE Capital Markets, Inc., as joint lead arrangers and joint book managers, providing the Company with a new \$225.0 million senior secured credit facility (the "Senior Secured Credit Facility") comprised of a five-year fully funded term loan of \$75.0 million and a five-year \$150.0 million revolving credit facility under which borrowings may be made from time to time during the term of the Senior Secured Credit Facility.

The Company used the proceeds from the Senior Secured Credit Facility to (i) repay outstanding balances of the ABL Facility, (ii) repay outstanding balances under the 2012 Term Loan, (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 ABL Facility and 2012 Term Loan, including the payment of approximately \$4.2 million in resulting breakage fees and premiums under the 2012 Term Loan, and pay fees and expenses associated with the Senior Secured Credit Facility.

The Senior Secured Credit Facility is a five-year senior secured credit facility secured by a first priority security interest in all now or hereafter acquired domestic property and assets and 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 Senior Secured Credit Facility requires equal quarterly installment payments against the \$75.0 million term loan beginning on June 30, 2013 based on an amortization schedule. Year 1 of the Senior Secured Credit Facility amortization schedule requires 7.5% of the original term loan amount to be repaid, years 2 and 3 require 10.0% of the original term loan to be repaid, years 4 and 5 require 12.5% of the original term loan to be repaid, with the remaining balance to be repaid on the maturity date of

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March 13, 2018.

The Senior Secured Credit Facility provides for loans and letters of credit in an amount up to an aggregate availability under the revolving credit facility of \$150.0 million, with a sub-limit of \$50.0 million for letters of credit. Borrowings under the entire Senior Secured Credit 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 2.00% for base rate borrowings and 2.00% to 3.00% for LIBOR borrowings. The

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

Company must also pay a commitment fee to the lenders equal to a range of 0.25% to 0.45% per annum on the unused portion of the \$150.0 million revolving credit 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 revolving credit facility portion without penalty or premium other than customary breakage costs with respect to LIBOR loans.

The Senior Secured Credit Facility requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio and maximum leverage ratio. The financial covenants are measured at each fiscal quarter-end. Restricted payments, including dividends, shall be permitted only if the pro-forma leverage ratio after giving effect to such payment is less than 3.25x, pro-forma compliance after giving effect to such payment is maintained for all other financial covenants and there are no existing defaults under the Senior Secured Credit Facility. The Company was in compliance with all of its debt covenants as of March 31, 2013.

Upon execution of the Company's new debt agreements in March 2013, the remaining unamortized deferred financing costs related to the ABL Facility and 2012 Term Loan were written off. In the first quarter of 2013, the Company recorded \$8.7 million of costs related to the termination of its prior debt agreements. The costs included a \$4.2 million early termination penalty payment which was equal to 2.75% of the outstanding balance of the 2012 Term Loan and a write-off of deferred financing costs of \$4.5 million.

The Company has incurred \$1.9 million of debt issuance costs to date associated with the execution of its new credit agreement. Financing costs incurred related to the new credit agreement are deferred and amortized over the remaining life of the new debt.

As of March 31, 2013, there was \$84.0 million of cash drawn and \$28.9 million of undrawn letters of credit under the \$150.0 million revolving credit facility, reducing net availability for borrowings to \$37.1 million.

As of March 31, 2013, no amounts were drawn against the Company's non-U.S. lines of credit which provide for borrowings up to \$14.1 million.

Interest Rate Swap

On March 13, 2013, the Company entered into an interest rate swap (the Swap) with a notional amount of \$75.0 million, as a means of fixing the interest rate on \$75.0 million of its variable rate debt under the Senior Secured Credit Facility. The Swap is designated as a cash flow hedge, with a termination date of March 13, 2018. As a result of the application of hedge accounting treatment, all unrealized gains and losses related to the derivative instruments are recorded in accumulated other comprehensive income (loss) and are reclassified into operations in the same period in which the hedged transaction affects earnings. Hedge effectiveness is tested quarterly.

The fair value of the Swap is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve (Level 2 inputs) and measured on a recurring basis in our consolidated balance sheet. At March 31, 2013, the fair value of the Swap included in other long-term liabilities on the consolidated balance sheet was \$0.7 million and no ineffectiveness was recorded.

We do not use derivative instruments for trading or speculative purposes.

NOTE 4 INCOME TAXES

The Company recognized an income tax provision of \$0.2 million and \$0.7 million for the three months ended March 31, 2013 and 2012, respectively. The income tax provision for the three months ended March 31, 2013 and 2012 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 provision or benefit for domestic operating results. The Company's effective tax rate was (22.2%) and 18.4% for the three months ended March 31, 2013 and 2012, respectively.

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The Company's unrecognized tax benefits were \$4.2 million and \$4.0 million at March 31, 2013 and December 31, 2012, respectively, of which \$4.1 million and \$3.9 million are tax benefits that, if recognized, would reduce the annual effective tax rate. However, to the extent we continue to maintain a full valuation allowance against certain deferred tax assets, the effect may be in the

Table of Contents**FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(Unaudited)**

form of an increase in the deferred tax asset related to our net operating loss carryforward, which would be offset by a full valuation allowance. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest and penalties amounting to \$0.2 million and \$0.1 million, respectively, are included in the consolidated balance sheet at March 31, 2013. The Company expects the unrecognized tax benefits to decrease by \$1.6 million over the next 12 months due to the potential expiration of statute of limitations and settlements with tax authorities.

NOTE 5 PENSIONS

(in millions)	U.S. Benefit Plans		Non-U.S. Benefit Plan	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Interest cost	\$ 1.8	\$ 1.8	\$ 0.6	\$ 0.7
Amortization of actuarial loss	1.8	1.3	0.2	0.2
Expected return on plan assets	(2.2)	(2.0)	(0.6)	(0.6)
Net postretirement pension expense	\$ 1.4	\$ 1.1	\$ 0.2	\$ 0.3

During the three months ended March 31, 2013, the Company contributed \$1.3 million to its U.S. defined benefit plans and \$0.4 million to its non-U.S. defined benefit plan. During the comparable prior-year period, the Company contributed \$1.2 million to its U.S. defined benefit plan and \$1.0 million to its non-U.S. defined benefit plan. The Company expects to contribute up to \$6.8 million to the U.S. benefit plan and up to \$2.3 million to the non-U.S. benefit plan in 2013.

NOTE 6 COMMITMENTS AND CONTINGENCIES*Standby Letters of Credit*

At March 31, 2013 and December 31, 2012, the Company had outstanding standby letters of credit aggregating \$28.9 million and \$29.2 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.

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 were as follows:

(in millions)	Three Months Ended	
	March 31,	
	2013	2012
Balance at January 1	\$ 6.8	\$ 6.7
Provisions to expense	2.2	1.8
Payments	(1.8)	(1.6)
Balance at March 31	\$ 7.2	\$ 6.9

Environmental Liabilities

The Company retained an environmental consultant to conduct an environmental risk assessment at its Pearland, Texas facility. The facility, which was previously used by the Company's discontinued Pauluhn business, manufactured marine, offshore and industrial lighting products. The Company sold the facility in May 2012. While the Company has not finalized its plans, it is probable that the site will require remediation. Reserves of \$1.8 million related to the environmental remediation of the Pearland facility are included in liabilities of discontinued operations on the consolidated balance sheet at both March 31, 2013 and December 31, 2012. The recorded reserves are based on an undiscounted estimate of the range of costs to remediate the site, depending upon the remediation approach and other factors. 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.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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. On a quarterly basis, the Company reviews the uninsured material legal claims against the Company. The Company accrues for the costs of such claims as appropriate and in the exercise of its best judgment and experience. However, due to a lack of factual information available to the Company about a claim, or the procedural stage of a claim, it may not be possible for the Company to reasonably assess either the probability of a favorable or unfavorable outcome of the claim or to reasonably estimate the amount of loss should there be an unfavorable outcome. Therefore, for many of the claims, the Company cannot estimate a range of loss.

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 nine. 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 thereafter filed a petition for rehearing with the Illinois Appellate Court, which was denied on February 7, 2013. The Company has sought further review by filing a petition for leave to appeal with the Illinois Supreme Court on March 14, 2013.

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 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 Illinois Appellate Court reversed the trial court's certification order.

Thereafter, the trial court scheduled a fourth consolidated trial involving three firefighter plaintiffs, which began in December 2012.

Prior to the start of this trial, the claims of two of the three firefighter plaintiffs were dismissed. On December 17, 2012, the jury entered a complete defense verdict for the Company in this trial.

Following this defense verdict, plaintiffs again moved to certify a class of Chicago Fire Department plaintiffs for trial on the sole issue of whether the Company's sirens were defective and unreasonably dangerous. Over the Company's objection, the trial court granted plaintiffs' motion for class certification on March 11, 2013 and scheduled a class action trial to begin on June 10, 2013. The Company filed a petition for review with the Illinois Appellate Court on March 29, 2013 seeking reversal of the class certification order. On April 23, 2013, the Appellate Court

granted the Company's petition for review. Pursuant to Illinois law, all class proceedings in the trial court are stayed pending a final decision from the Appellate Court on this issue.

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(Unaudited)

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 c