FEDERAL SIGNAL CORP /DE/
Form 10-Q
April 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2015
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)

Delaware	36-1063330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1415 West 22nd Street, Oak Brook, Illinois	60523
(Address of principal executive offices)	(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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 þ 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.

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

As of March 31, 2015, the number of shares outstanding of the registrant's common stock was 62,525,177.

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FEDERAL SIGNAL CORPORATION

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q") is being filed by Federal Signal Corporation and its subsidiaries (referred to collectively as the "Company," "we," "our" or "us" herein, unless the context otherwise indicates) with the United States Securities and Exchange Commission (the "SEC"), and includes comments made by management that may contain words such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "project," "estimate" and "objective" terminology, or the negative thereof, 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, governmental and commercial markets; compliance with domestic and foreign laws and regulations; economic and political uncertainties and foreign currency rate fluctuations; 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 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; information technology security threats and cyber-attacks; infringement of, or an inability to protect, our intellectual property rights; disruptions in the supply of parts and components from suppliers and subcontractors; attraction and retention of key personnel; 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 and tax credit carryforwards to reduce future tax payments; charges related to goodwill; our ability to expand our business through successful future acquisitions; and unknown or unexpected contingencies in our 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, 2014, which was filed with the SEC on March 2, 2015. 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 results of operations, financial condition or cash flow. 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 is subject to the reporting and information requirements of the Exchange Act and, as a result, is obligated to file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and information with the SEC, as well as amendments to those reports. The Company makes these filings available free of charge through our website at www.federalsignal.com as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC. Information on our website does not constitute part of this Form 10-Q. In addition, the SEC maintains a website at 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.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited).
FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
(in millions, except per share data)	2015	2014
Net sales	$221.6	$200.2
Cost of sales	162.4	153.4
Gross profit	59.2	46.8
Selling, engineering, general and administrative expenses	34.4	34.2
Restructuring	—	(0.2)
Operating income	24.8	12.8
Interest expense	0.6	1.0
Other expense, net	0.9	—
Income before income taxes	23.3	11.8
Income tax expense	(8.4)	(4.2)
Income from continuing operations	14.9	7.6
Loss from discontinued operations and disposal, net of income tax benefit of $0.0 for both periods	—	(0.2)
Net income	$14.9	$7.4
Basic earnings per share:		
Earnings from continuing operations	$0.24	$0.12
Loss from discontinued operations and disposal, net of tax	—	—
Net earnings per share	$0.24	$0.12
Diluted earnings per share:		
Earnings from continuing operations	$0.23	$0.12
Loss from discontinued operations and disposal, net of tax	—	—
Net earnings per share	$0.23	$0.12
Weighted average common shares outstanding:		
Basic	62.7	62.8
Diluted	63.7	63.7
Cash dividends declared per common share	$0.06	$—

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
(in millions)	2015	2014
Net income	$14.9	$7.4
Other comprehensive (loss) income:		
Change in foreign currency translation adjustment	(11.9)	—
Change in unrecognized net actuarial losses related to pension benefit plans, net of income tax expense of $0.9 and $0.4, respectively	1.9	0.8
Total other comprehensive (loss) income	(10.0)	0.8
Comprehensive income	$4.9	$8.2

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$23.0	$ 30.4
Accounts receivable, net of allowances for doubtful accounts of $1.3 at both dates	112.2	107.6
Inventories	126.5	121.0
Prepaid expenses	11.2	8.8
Deferred tax assets	13.7	18.8
Other current assets	3.9	2.8
Current assets of discontinued operations	1.1	1.1
Total current assets	291.6	290.5
Properties and equipment, net	68.6	69.5
Goodwill	260.8	266.3
Deferred tax assets	21.1	25.3
Deferred charges and other assets	3.8	4.0
Long-term assets of discontinued operations	3.1	3.1
Total assets	$649.0	$ 658.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$2.8	$ —
Current portion of long-term borrowings and capital lease obligations	6.2	6.2
Accounts payable	55.1	50.7
Customer deposits	12.1	12.1
Accrued liabilities:		
Compensation and withholding taxes	21.8	28.2
Other current liabilities	36.8	40.2
Current liabilities of discontinued operations	1.6	1.7
Total current liabilities	136.4	139.1
Long-term borrowings and capital lease obligations	43.9	44.0
Long-term pension and other postretirement benefit liabilities	60.6	63.5
Deferred gain	14.1	14.6
Other long-term liabilities	21.4	20.9
Long-term liabilities of discontinued operations	4.9	5.0
Total liabilities	281.3	287.1
Stockholders' equity:		
Common stock, $1 par value per share, 90.0 shares authorized, 64.7 and 64.2 shares issued, respectively	64.7	64.2
Capital in excess of par value	187.7	187.0
Retained earnings	238.1	227.0
Treasury stock, at cost, 2.1 and 1.7 shares, respectively	(33.3)	(27.1)
Accumulated other comprehensive loss	(89.5)	(79.5)
Total stockholders' equity	367.7	371.6
Total liabilities and stockholders' equity	$649.0	$ 658.7

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in millions)	Three Months Ended March 31, 2015	2014
Operating activities:		
Net income	$14.9	$7.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations and disposal	—	0.2
Depreciation and amortization	3.8	3.6
Deferred financing costs	0.1	0.1
Deferred gain	(0.5)	(0.5)
Stock-based compensation expense	1.1	0.9
Pension expense, net of funding	(1.6)	(1.0)
Deferred income taxes	8.5	4.7
Changes in operating assets and liabilities, net of effects of discontinued operations	(22.9)	(22.4)
Net cash provided by (used for) continuing operating activities	3.4	(7.0)
Net cash used for discontinued operating activities	(0.1)	(0.2)
Net cash provided by (used for) operating activities	3.3	(7.2)
Investing activities:		
Purchases of properties and equipment	(2.8)	(4.2)
Proceeds from sale of FSTech Group	—	7.0
Net cash (used for) provided by continuing investing activities	(2.8)	2.8
Financing activities:		
Decrease in revolving lines of credit, net	—	(10.0)
Increase in short-term borrowings, net	3.0	6.1
Purchases of treasury stock	(3.6)	—
Redemptions of common stock to satisfy withholding taxes related to stock-based compensation	(2.6)	—
Cash dividends paid to stockholders	(3.8)	—
Proceeds from stock-based compensation activity	0.2	0.6
Other, net	(0.2)	(0.2)
Net cash used for continuing financing activities	(7.0)	(3.5)
Effects of foreign exchange rate changes on cash and cash equivalents	(0.9)	0.1
Decrease in cash and cash equivalents	(7.4)	(7.8)
Cash and cash equivalents at beginning of period	30.4	23.8
Cash and cash equivalents at end of period	$23.0	$16.0

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2015	$64.2	$187.0	$227.0	$(27.1)	$ (79.5)	$371.6
Net income			14.9			14.9
Total other comprehensive loss					(10.0)	(10.0)
Cash dividends declared			(3.8)			(3.8)
Stock-based payments:						
Stock-based compensation		1.1				1.1
Stock option exercises and other		0.1				0.1
Performance share unit transactions	0.5	(0.5)		(2.6)		(2.6)
Stock repurchase program				(3.6)		(3.6)
Balance at March 31, 2015	$64.7	$187.7	$238.1	$(33.3)	$ (89.5)	$367.7

(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	$63.8	$177.0	$168.9	$(16.8)	$ (41.9)	$351.0
Net income			7.4			7.4
Total other comprehensive income					0.8	0.8
Stock-based payments:						
Stock-based compensation		0.9				0.9
Stock option exercises and other	0.1	0.4				0.5
Balance at March 31, 2014	$63.9	$178.3	$176.3	$(16.8)	$ (41.1)	$360.6

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. Products manufactured and services rendered by the Company are divided into three major operating segments: Environmental Solutions Group, Safety and Security Systems Group and Fire Rescue Group. The individual operating businesses are organized under each segment because they share certain characteristics, including technology, marketing, distribution and product application, which create long-term synergies. The Company's reportable segments are consistent with its operating segments. These segments are discussed in Note 10 – Segment Information.

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 United States ("U.S.") Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("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 Company's Annual Report on Form 10-K for the year ended December 31, 2014, and should be read in conjunction with those consolidated financial statements and the notes thereto.

These statements include all adjustments, including those of a normal recurring nature, that we considered necessary to present a fair statement of our results of operations, financial condition and cash flow. Intercompany balances and transactions have been eliminated in consolidation. 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. While we label our quarterly information using a calendar convention whereby 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 based on a 13-week period ending on a Saturday, with our fiscal year ending on December 31. The effects of this practice are not material and exist only within a reporting year.

Recent Accounting Pronouncements and Accounting Changes

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update revises the required criteria for reporting disposals as discontinued operations, whereby such disposals must represent strategic shifts that had (or will have) a major effect on an entity's operations and financial results. The guidance also requires additional disclosures about discontinued operations, including expanded disclosure of any significant ongoing involvement. The new requirements are effective prospectively for all disposals that occur within fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. The Company's adoption of the guidance on January 1, 2015 did not have an impact on its results of operations, financial condition or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The FASB decided to allow either a "full retrospective" adoption, in which the standard is applied to all periods presented in the financial statements, or a "modified retrospective" adoption, in which the guidance is applied retrospectively only to the most current period presented in the financial statements, with the cumulative effect of initially applying the new standard being recognized as an adjustment to the opening balance of retained earnings. As originally proposed, this guidance was effective for annual reporting periods beginning on or after December 15, 2016, including interim periods within that reporting period, and early adoption was not permitted. In April 2015, the FASB proposed to defer the effective date by one year, to annual reporting periods beginning on or after December 15, 2017, including interim periods within that reporting period. The FASB also voted to permit early adoption of the guidance but no earlier than the original effective date. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30), which requires that debt issuance costs be presented in the balance sheets as a direct deduction from the carrying amount of the related debt liability. The new requirement is effective for fiscal years beginning on or after December 15, 2015, and for interim periods within those fiscal years. Retrospective presentation is required for all comparable periods presented. The Company does not believe that the adoption of this guidance will have a material impact on its consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but are not limited to, revenue recognition, workers' compensation and product liability reserves, asset impairment, pension and other post-retirement benefit obligations, income tax contingency accruals and valuation allowances, and litigation-related accruals. Actual results could differ from those estimates.

There have been no changes to the Company's significant accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

NOTE 2 – INVENTORIES

The following table summarizes the components of inventories:

(in millions)	March 31, 2015	December 31, 2014
Raw materials	$49.9	$ 53.1
Work in progress	25.9	23.7
Finished goods	50.7	44.2
Total inventories	$126.5	$ 121.0

NOTE 3 – DEBT

The following table summarizes the components of Long-term borrowings and capital lease obligations:

(in millions)	March 31, 2015	December 31, 2014
Senior Secured Credit Facility:		
Revolving credit facility	$—	$—
Term loan	49.2	49.2
Capital lease obligations	0.9	1.0
Total long-term borrowings and capital lease obligations, including current portion	50.1	50.2
Less: Current maturities	5.8	5.8
Less: Current capital lease obligations	0.4	0.4
Total long-term borrowings and capital lease obligations, net	$43.9	$44.0

As more fully described within Note 1 – Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, the Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The carrying value of short-term borrowings 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).

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

(in millions)	March 31, 2015 Notional Amount	March 31, 2015 Fair Value	December 31, 2014 Notional Amount	December 31, 2014 Fair Value
Short-term borrowings	$2.8	$2.8	$—	$—
Long-term borrowings [(a)]	50.1	50.1	50.2	50.2

(a) Long-term borrowings includes current portions of long-term debt and current portions of capital lease obligations of $6.2 million and $6.2 million as of March 31, 2015 and December 31, 2014, respectively.

In March 2013, the Company executed a $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. As of March 31, 2015, there was no cash drawn and $24.0 million of undrawn letters of credit under the $150.0 million revolving credit facility portion of the Senior Secured Credit Facility, with $126.0 million of net availability for borrowings.

As of March 31, 2015, there were $2.8 million of borrowings against the Company's non-U.S. lines of credit which provide for borrowings of up to $11.1 million.

For the three months ended March 31, 2015, there were no gross borrowings or gross payments under the Company's domestic revolving credit facility. For the three months ended March 31, 2014, gross borrowings and gross payments under the Company's domestic revolving credit facility were $6.5 million and $16.5 million, respectively.

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, are 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, 2015.

NOTE 4 – INCOME TAXES

The Company recognized income tax expense of $8.4 million and $4.2 million for the three months ended March 31, 2015 and 2014, respectively. The Company's effective tax rate was 36.1% and 35.6% for the three months ended March 31, 2015 and 2014, respectively.

NOTE 5 – PENSIONS

The following table summarizes the components of net postretirement pension expense:

	U.S. Benefit Plan Three Months Ended March 31,		Non-U.S. Benefit Plans Three Months Ended March 31,	
(in millions)	2015	2014	2015	2014
Service cost	$—	$—	$0.1	$0.1
Interest cost	1.9	2.0	0.5	0.7
Amortization of actuarial loss	1.6	1.2	0.2	0.1
Expected return on plan assets	(2.5)	(2.3)	(0.7)	(0.9)
Net postretirement pension expense	$1.0	$0.9	$0.1	$—

During the three months ended March 31, 2015 and 2014, the Company contributed $1.6 million and $1.5 million to its U.S. defined benefit plan, respectively, and $1.1 million and $0.4 million to its non-U.S. defined benefit plans, respectively.

For the year ended December 31, 2015, the Company expects to contribute up to $7.8 million to the U.S. benefit plan and up to $1.2 million to the non-U.S. benefit plans.

During the three months ended March 31, 2015, the Company repurchased all of the remaining shares of its common stock from its U.S benefit plan for a total cost of $3.6 million. The repurchases were made under the stock repurchase program further outlined in Note 9 – Stockholders' Equity. At December 31, 2014, total assets of the U.S. benefit plan included 0.2 million of the Company's common stock shares, valued at $3.6 million. The value of the shares was determined using quoted market prices (Level 1 input).

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Guarantees

The Company provides indemnifications and other guarantees in the ordinary course of business, the terms of which range in duration and often are not explicitly defined. Specifically, the Company is occasionally required to provide letters of credit and bid and performance bonds to various customers, principally to act as security for retention levels related to casualty insurance policies and to guarantee the performance of subsidiaries that engage in export and domestic transactions. At March 31, 2015, the Company had outstanding performance and financial standby letters of credit, as well as outstanding bid and performance bonds, aggregating $36.5 million. If any such letters of credit or bonds are called, the Company would be obligated to reimburse the issuer of the letter of credit or bond. The Company believes the likelihood of any currently outstanding letter of credit or bond being called is remote.

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 country in which the Company does business, with warranty periods generally ranging from one to five 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 (i) the number of units under warranty, (ii) historical and anticipated rates of warranty claims and (iii) costs per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The following table summarizes the changes in the Company's warranty liabilities:

(in millions)	2015	2014
Balance at January 1	$9.1	$8.4
Provisions to expense	1.9	1.7
Payments	(2.1)	(1.6)
Balance at March 31	$8.9	$8.5

Environmental Liabilities

Reserves of $1.3 million and $1.3 million related to the environmental remediation of the Pearland, Texas facility are included in liabilities of discontinued operations on the Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, respectively. The facility was previously used by the Company's discontinued Pauluhn business and manufactured marine, offshore and industrial lighting products. The Company sold the facility in May 2012 and while the Company has not finalized its plans, it is probable that the site will require remediation. 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 cash flow.

Legal Proceedings

The Company is subject to various claims, including pending and possible legal actions for product liability and other damages, and other matters arising in the ordinary course of the Company's business. On a quarterly basis, the Company reviews uninsured material legal claims against the Company and accrues for the costs of such claims as appropriate in the exercise of management's 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 claims, the Company cannot reasonably 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 results of operations or financial condition. 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 results of operations, financial condition or cash flow.

Hearing Loss Litigation

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. In 2009, six additional cases were filed in Cook County, involving 299 Pennsylvania firefighter plaintiffs. During 2013, another case was filed in Cook County involving 74 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 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. The Company thereafter filed a petition for rehearing with the Illinois Appellate Court, which was denied on February 7, 2013. The Company sought further review by filing a petition for leave to appeal with the Illinois Supreme Court on March 14, 2013. On May 29, 2013, the Illinois Supreme Court issued a summary order declining to accept review of this case. On July 1, 2013, the Company satisfied the judgments entered for these plaintiffs, which has resulted in final dismissal of these cases.

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, on March 12, 2012 the trial court 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.

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 June 25, 2014, a unanimous three-judge panel of the First District Illinois Appellate Court issued its opinion reversing the class certification order of the trial court. Specifically, the Appellate Court determined that the trial court's ruling failed to satisfy the class-action requirements that the common issues of the firefighters' claims predominate over the individual issues and that there is an adequate representative for the class. During a status hearing on October 8, 2014, plaintiffs represented to the Court that they would again seek to certify a class of firefighters on the issue of whether the Company's sirens were defective and unreasonably dangerous. On January 12, 2015, plaintiffs filed motions to amend their complaints to add class action allegations with respect to Chicago firefighter plaintiffs as well as the approximately 1,800 firefighter plaintiffs from locations outside of Chicago. On March 11, 2015, the trial court granted plaintiffs' motions to amend their complaints. Plaintiffs have indicated that they will now file motions to certify classes in these cases. On April 24, 2015, the cases were transferred to Cook County chancery court, which will decide all class certification issues. The Company intends to continue its objections to any attempt at certification. The Company also has filed motions to dismiss cases involving firefighters located outside of Cook County based on improper venue.

The Company has also been sued on this issue outside of the Cook County, Illinois venue. Many 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