

FEDERAL SIGNAL CORP /DE/
Form 10-Q
August 03, 2012

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 June 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)

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)	60523 (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 x 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 x No "

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

Indicate by check mark whether the Company 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

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	62,348,901 shares outstanding at July 13, 2012

FEDERAL SIGNAL CORPORATION

INDEX TO FORM 10-Q

	Page
<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 Six Months Ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	6
<u>Condensed Consolidated Statement of Shareholders' Equity for the Six Months Ended June 30, 2012</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 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>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	27
<u>Part II. Other Information</u>	28
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 5. Other Information</u>	28
<u>Item 6. Exhibits</u>	28
<u>Signatures</u>	29

Part I. Financial Information

Item 1. Financial Statements

FORWARD-LOOKING STATEMENTS

This Form 10-Q report filed by Federal Signal Corporation and its subsidiaries (the Company) with the U.S. Securities and Exchange Commission (SEC), and comments made by management may contain words such as may, will, believe, expect, anticipate, intend, 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.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in millions, except per share data)	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net sales	\$ 204.4	\$ 175.6	\$ 400.5	\$ 325.9
Cost of sales	155.2	135.7	306.0	252.8
Gross profit	49.2	39.9	94.5	73.1
Selling, engineering, general and administrative	33.5	29.3	67.6	60.0
Restructuring charge	(0.1)		0.8	
Operating income	15.8	10.6	26.1	13.1
Interest expense	5.4	4.0	10.5	7.3
Debt settlement costs			1.6	
Other expense (income), net	0.5	(0.2)	0.3	
Income before income taxes	9.9	6.8	13.7	5.8
Income tax expense	(0.3)	(1.1)	(1.0)	(2.5)
Income from continuing operations	9.6	5.7	12.7	3.3
Loss from discontinued operations and disposal, net of income tax benefit of \$0.7, \$0.0, \$0.6 and \$0.0, respectively	(26.1)	(1.3)	(30.2)	(4.7)
Net (loss) income	\$ (16.5)	\$ 4.4	\$ (17.5)	\$ (1.4)
Basic and diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.15	\$ 0.09	\$ 0.20	\$ 0.05
Loss from discontinued operations and disposal, net of tax	(0.41)	(0.02)	(0.48)	(0.07)
(Loss) earnings per share	\$ (0.26)	\$ 0.07	\$ (0.28)	\$ (0.02)
Weighted average common shares outstanding:				
Basic	62.3	62.2	62.2	62.2
Diluted	62.6	62.2	62.5	62.2
Cash dividends declared per share of common stock	\$	\$	\$	\$

See notes to condensed consolidated financial statements.

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

(\$ in millions)	Three months ended		Six months ended	
	June 30, 2012	2011	June 30, 2012	2011
Net (loss) income	\$ (16.5)	\$ 4.4	\$ (17.5)	\$ (1.4)
Other comprehensive income:				
Change in foreign currency translation adjustment	1.3	1.3	6.5	10.0
Unrealized net gain on derivatives, net of tax expense of \$0.1, \$0.1, \$0.2, and \$0.5, respectively	0.3	0.2	0.7	0.1
Change in unrecognized losses related to pension benefit plans, net of tax expense (benefit) of \$0.2, (\$0.7), \$0.0 and (\$0.6), respectively	1.8	2.2	2.7	3.0
Total other comprehensive income	3.4	3.7	9.9	13.1
Comprehensive (loss) income	\$ (13.1)	\$ 8.1	\$ (7.6)	\$ 11.7

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10.3	\$ 9.5
Restricted cash	1.5	
Accounts receivable, net of allowances for doubtful accounts of \$2.4 and \$2.4, respectively	108.3	105.0
Inventories	117.9	104.3
Other current assets	22.0	18.7
Current assets of discontinued operations	122.2	131.9
Total current assets	382.2	369.4
Properties and equipment, net	58.1	60.0
Other assets		
Goodwill	269.7	270.6
Intangible assets, net	1.3	1.8
Deferred charges and other assets	7.1	2.0
Long-term assets of discontinued operations	1.9	2.9
Total assets	\$ 720.3	\$ 706.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 3.9	\$ 9.0
Current portion of long-term borrowings and capital lease obligations	10.9	0.1
Accounts payable	53.1	49.5
Customer deposits	15.5	14.4
Deferred revenue	2.9	2.9
Accrued liabilities		
Compensation and withholding taxes	18.0	18.7
Other	38.9	34.0
Current liabilities of discontinued operations	38.7	35.7
Total current liabilities	181.9	164.3
Long-term borrowings and capital lease obligations, less current portion	221.9	213.1
Long-term pension and other postretirement liabilities	69.6	74.1
Deferred gain	20.4	21.4
Deferred tax liabilities	37.3	36.0
Other long-term liabilities	14.0	14.5
Long-term liabilities of discontinued operations	6.5	8.6
Total liabilities	551.6	532.0
Shareholders' equity		
Common stock, \$1 par value per share, 90.0 million shares authorized, 63.3 million and 63.1 million shares issued, respectively	63.3	63.1
Capital in excess of par value	169.3	167.7
Retained earnings	18.9	36.4
Treasury stock, 0.9 million and 0.9 million shares, respectively, at cost	(16.3)	(16.1)
Accumulated other comprehensive loss	(66.5)	(76.4)

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

Total shareholders' equity	168.7	174.7
Total liabilities and shareholders' equity	\$ 720.3	\$ 706.7

See notes to condensed consolidated financial statements.

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			(17.5)			(17.5)
Foreign currency translation					6.5	6.5
Unrealized gain on derivatives, net of tax expense of \$0.2					0.7	0.7
Change in unrecognized loss related to pension benefit plans, net of tax expense of \$0.0					2.7	2.7
Stock-based payments:						
Non-vested stock and options		1.4				1.4
Stock awards	0.2	0.2		(0.2)		0.2
Balance at June 30, 2012	\$ 63.3	\$ 169.3	\$ 18.9	\$ (16.3)	\$ (66.5)	\$ 168.7

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$ in millions)	Six months ended June 30,	
	2012	2011
Operating activities		
Net loss	\$ (17.5)	\$ (1.4)
Adjustments to reconcile net loss to net cash used for operating activities		
Loss on discontinued operations and disposal	30.2	4.7
Depreciation and amortization	6.6	6.5
Stock-based compensation expense	1.4	1.3
Restructuring charge	0.8	
Changes in operating assets and liabilities	(12.0)	(8.6)
Net cash provided by continuing operating activities	9.5	2.5
Net cash used for discontinued operating activities	(10.0)	(9.0)
Net cash used for operating activities	(0.5)	(6.5)
Investing activities		
Purchases of properties and equipment	(5.5)	(6.6)
Proceeds from sales of properties, plant and equipment	1.0	0.9
Increase in restricted cash	(1.5)	
Net cash used for continuing investing activities	(6.0)	(5.7)
Net cash provided by discontinued investing activities		
Net cash used for investing activities	(6.0)	(5.7)
Financing activities		
Reduction in debt outstanding under revolving credit facilities	(161.8)	(24.6)
Proceeds on short-term borrowings	28.5	33.0
Payments on short-term borrowings	(33.8)	(25.4)
Proceeds from issuance of long-term borrowings	215.0	
Payments on long-term borrowings	(34.4)	(11.4)
Payments of debt financing fees	(6.2)	(2.1)
Cash dividends paid to shareholders		(3.7)
Other, net	0.9	
Net cash provided by (used for) continuing financing activities	8.2	(34.2)
Net cash (used for) provided by discontinued financing activities	(0.9)	0.1
Net cash provided by (used for) financing activities	7.3	(34.1)
Effects of foreign exchange rate changes on cash and cash equivalents		(1.5)
Increase (decrease) in cash and cash equivalents	0.8	(47.8)
Cash and cash equivalents at beginning of period	9.5	62.1
Cash and cash equivalents at end of period	\$ 10.3	\$ 14.3

See notes to condensed consolidated financial statements.

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 Federal Signal Corporation and its subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. 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, 2011, and should be read in conjunction with the consolidated financial statements and the 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 has signed a definitive agreement to sell its Federal Signal Technologies (FSTech) Group. As the Company has 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 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*, 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*, 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 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 six months ended June 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 statements 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.

In September 2011, the FASB issued ASU No. 2011-08, *Topic 350, Testing of Goodwill for Impairment*, 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. The ASU may change how a company tests goodwill for impairment but should not change the timing or measurement of goodwill impairments. The ASU 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 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 June 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)	June 30, 2012	December 31, 2011
Raw materials	\$ 50.8	\$ 47.1
Work in progress	32.5	27.6
Finished goods	34.6	29.6
Total inventories	\$ 117.9	\$ 104.3

3. GOODWILL AND OTHER INTANGIBLE ASSETS

(\$ in millions)	December 31, 2011	Translation Currency Adjustments	June 30, 2012
Goodwill			
Environmental Solutions	\$ 120.4	\$	\$ 120.4
Fire Rescue	33.2	(0.3)	32.9
Safety and Security Systems	117.0	(0.6)	116.4

Total	\$	270.6	\$	(0.9)	\$	269.7
-------	----	-------	----	-------	----	-------

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

(\$ in millions)	Average Useful Life (Years)	June 30, 2012			December 31, 2011		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets							
Developed software	6	\$ 6.0	\$ (4.9)	\$ 1.1	\$ 6.0	\$ (4.4)	\$ 1.6
Patents	10	0.6	(0.4)	0.2	0.6	(0.4)	0.2
Total	6	\$ 6.6	\$ (5.3)	\$ 1.3	\$ 6.6	\$ (4.8)	\$ 1.8

Amortization expense for the three and six month periods ended June 30, 2012 totaled \$0.3 million and \$0.5 million, respectively, and for the three and six month periods ended June 30, 2011 totaled \$0.3 million and \$0.6 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 360, *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 are currently available to us for issuance of debt with similar terms and remaining maturities (Level 2 input). Other assets measured at fair value on a recurring basis consisted of cash and cash equivalents and restricted cash. 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.

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

(\$ in millions)	June 30, 2012		December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Short-term debt	\$ 3.9	\$ 3.9	\$ 9.0	\$ 9.0
Long-term debt (1)	232.8	232.8	214.1	212.4

- (1) Long-term debt includes current portions of long-term debt and capital lease obligations of \$10.9 million and \$0.1 million as of June 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)	June 30, 2012	December 31, 2011
Non-U.S. lines of credit	\$ 3.9	\$ 9.0
Total short-term borrowings	\$ 3.9	\$ 9.0

Long-term borrowings consisted of the following:

(\$ in millions)	June 30, 2012	December 31, 2011
Revolving Credit Facility	\$ 18.2	\$ 180.0
ABL Facility	214.1	
Term Loan		27.3
12.98% private placement note due 2012		6.2
Private placement note, floating rate (8.85% at December 31, 2011)	0.5	0.5
Capital lease obligations	232.8	214.0
Unamortized balance of terminated fair value interest rate swaps		0.1
	232.8	214.1
Less current maturities	(10.8)	
Less current capital lease obligations	(0.1)	(0.1)
Less financial services activities borrowings (included in discontinued operations)		(0.9)
Total long-term borrowings and capital lease obligations, net	\$ 221.9	\$ 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 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 June 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

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

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 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 June 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.

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.

As of June 30, 2012, the available borrowing base under the ABL Facility was \$79.7 million. As of June 30, 2012, there was \$18.2 million in cash drawn and \$32.8 million of undrawn letters of credit under the ABL Facility, reducing net availability for borrowings to \$28.7 million.

As of June 30, 2012, \$3.9 million was drawn against the Company's non-U.S. lines of credit which provide for borrowings up to \$13.9 million.

Aggregate maturities of total borrowings amount to approximately \$4.0 million in 2012, \$21.7 million in 2013, \$32.3 million in 2014, \$32.3 million in 2015, \$32.3 million in 2016, and \$114.1 million thereafter. These maturities primarily reflect the payment terms of the ABL Facility

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

and the Term Loan. The fair values of aggregate borrowings were \$236.7 million and \$221.5 million at June 30, 2012 and December 31, 2011, respectively. Included in current maturities are \$3.9 million of other non-U.S. lines of credit, \$10.8 million of Term Loan, and \$0.1 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 \$8.0 million of debt issuance costs associated with the execution of its new debt agreements through June 30, 2012, of which \$6.2 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. At June 30, 2012 and December 31, 2011, deferred financing fees totaled \$7.3 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 \$0.3 million and \$1.1 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, the Company recognized an income tax provision of \$1.0 million and \$2.5 million, respectively. The income tax provision for the three and six months ended June 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 3% and 16% for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, the Company's effective tax rate was 7% and 43%, respectively.

The Company's unrecognized tax benefits were \$4.3 million at June 30, 2012 and December 31, 2011, of which \$4.2 million 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. Interest and penalties amounting to \$0.2 million and \$0.1 million, respectively, are included in the condensed consolidated balance sheet at June 30, 2012. The Company expects the unrecognized tax benefits to decrease by \$1.6 million over the next twelve months.

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		Six months ended		Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Service cost	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Interest cost	2.2	1.9	4.0	3.7	0.6	0.7	1.3	1.4
Expected return on plan assets	(2.4)	(1.8)	(4.4)	(3.6)	(0.7)	(0.8)	(1.3)	(1.6)
Amortization of actuarial loss	1.5	1.1	2.8	2.2	0.2	0.2	0.4	0.4
Net pension expense	\$ 1.3	\$ 1.2	\$ 2.4	\$ 2.3	\$ 0.2	\$ 0.1	\$ 0.5	\$ 0.3

During the six-month period ended June 30, 2012, the Company contributed \$3.2 million to its U.S. defined benefit plan and \$1.2 million to its non-U.S. defined benefit plan. During the comparable prior-year period, no contribution to the U.S. defined benefit plan was made and the Company contributed \$0.6 million to the non-U.S. defined benefit plan. The Company expects to contribute the required \$11.2 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

Earnings (loss) per share—basic is computed by dividing income or loss available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Earnings (loss) per share—diluted reflects the potential dilution that could occur if options issued under stock-based compensation awards were converted into common stock. For the three-month periods ended June 30, 2012 and 2011, options to purchase 2.3 million and 1.8 million shares of the Company's common stock, respectively, had exercise prices that were greater than the average market price of those shares during the respective reporting periods. For the six months ended June 30, 2012 and 2011, options to

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

purchase 2.1 million and 1.5 million shares of the Company's common stock, respectively, had exercise prices that were greater than the average market price of those shares during the respective reporting periods. As a result, these shares are excluded from the earnings (loss) per share calculation as they are anti-dilutive.

Computation of Earnings (Loss) per Common Share

(in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Income from continuing operations	\$ 9.6	\$ 5.7	\$ 12.7	\$ 3.3
Loss from discontinued operations and disposal, net of tax	(26.1)	(1.3)	(30.2)	(4.7)
Net (loss) income	\$ (16.5)	\$ 4.4	\$ (17.5)	\$ (1.4)
Weighted average shares outstanding basic	62.3	62.2	62.2	62.2
Dilutive effect of common stock equivalents	0.3		0.3	
Weighted average shares outstanding diluted	62.6	62.2	62.5	62.2
Basic and diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.15	\$ 0.09	\$ 0.20	\$ 0.05
Loss from discontinued operations and disposal, net of tax	(0.41)	(0.02)	(0.48)	(0.07)
(Loss) earnings per share	\$ (0.26)	\$ 0.07	\$ (0.28)	\$ (0.02)

9. COMMITMENTS*Standby Letters of Credit*

At June 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit aggregating \$33.3 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.

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 six-month periods ended June 30, 2012 and 2011 were as follows:

(\$ in millions)	2012	2011
Balance at January 1	\$ 6.7	\$ 5.5
Provisions to expense	3.6	4.0
Actual costs incurred	(3.4)	(4.0)
Balance at June 30	\$ 6.9	\$ 5.5

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 June 30, 2012 and

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

December 31, 2011, \$2.1 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 is appealing this verdict. 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.

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 have 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 and denies that its products caused any injuries to the Claimants. Nonetheless, to avoid the expense and uncertainty of further litigation, the Company entered into the Settlement Agreement for the purpose of minimizing its expenses, including legal fees, and the inconvenience 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 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 as a reduction of corporate operating expenses all of which had been received as of December 31, 2011. For the six months ended June 30, 2012, the Company recorded \$0.4 million of reimbursements from CNA as a reduction of corporate operating expenses all of which has been received as of June 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. 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. Neology filed an objection to the Report and Recommendation, which will be reviewed by a U.S. District Court judge. The Company has denied the allegations in the complaint and intends to continue to vigorously defend itself in this litigation.

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 yet to file a response to this complaint but intends to vigorously defend itself in this litigation.

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 SignalTM, Federal Signal VAMATM, Target Tech[®], and VictorTM 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[®] 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[®], Vector[®], Guzzler[®] and Jetstream[®] 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 six months ended June 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.

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 June 30, 2012					
Net sales	\$ 59.1	\$ 33.3	\$ 112.0	\$	\$ 204.4
Operating income (loss)	6.3	1.7	12.5	(4.7)	15.8
Three months ended June 30, 2011					
Net sales	56.3	24.7	94.6		175.6
Operating income (loss)	6.3	0.7	9.2	(5.6)	10.6

(\$ in millions)	Safety And Security Systems	Fire Rescue	Environmental Solutions	Corporate And Eliminations	Total
Six months ended June 30, 2012					
Net sales	\$ 115.4	\$ 65.1	\$ 220.0	\$	\$ 400.5
Operating income (loss)	10.9	2.5	24.5	(11.8)	26.1
Six months ended June 30, 2011					
Net sales	109.0	45.9	171.0		325.9
Operating income (loss)	11.5	1.5	10.1	(10.0)	13.1

(\$ in millions)	Safety And Security Systems	Fire Rescue	Environmental Solutions	Corporate And Eliminations	Discontinued Operations	Total
As of June 30, 2012						
Total assets	\$ 201.6	\$ 114.3	\$ 243.9	\$ 36.4	\$ 124.1	\$ 720.3
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.

The following presents an analysis of the restructuring reserves included in other accrued liabilities as of June 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 June 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 six-month periods ended June 30, 2012 and 2011, respectively:

(\$ in millions)	Federal Signal Technologies		Three months ended June 30,		Six months ended June 30,	
			2012	2011	2012	2011
Net sales			\$ 33.6	\$ 28.9	\$ 62.1	\$ 52.2
Interest allocated to discontinued operations			2.2		3.1	
Other costs and expenses			35.4	30.5	66.8	57.3
Loss before income taxes			(4.0)	(1.6)	(7.8)	(5.1)
Income tax benefit			0.7		0.6	
Loss from discontinued operations			\$ (3.3)	\$ (1.6)	\$ (7.2)	\$ (5.1)

(\$ in millions)	China WOFE		Three months ended June 30,		Six months ended June 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 signed a definitive agreement to sell its FS Tech Group for \$110.0 million, subject to a working capital adjustment. The Company expects to receive \$88.0 million in cash at closing and the remaining \$22.0 million will be placed into escrow as security for indemnification obligations provided by the Company pursuant to the sale agreement as well as defense and other costs associated with the Neology lawsuits discussed in Note 9. The portion of the escrow identified for general indemnification obligations will be held for a period of 18 months. The portion of escrow associated with the Neology lawsuits is to be held for a period of 48 months, but may be released earlier under certain conditions. If and when the relevant conditions associated with the Neology lawsuits are resolved and any

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

remaining escrowed proceeds are released, the Company may recognize an adjustment to the loss from discontinued operations in its financial statements.

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 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 360, the Company has met held for sale criteria during the second quarter of 2012 and the FSTech Group is being 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).

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.

The FSTech Group sale is subject to certain closing conditions and regulatory approvals and is expected to be completed in the second half of 2012.

During the six months ended June 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 June 30, 2012 and December 31, 2011:

(\$ in millions)	June 30, 2012	December 31, 2011
Current assets	\$ 44.0	\$ 37.4
Properties and equipment	2.2	2.7
Long-term assets	77.0	93.7
Financial service assets, net	0.9	1.0
Total assets of discontinued operations	\$ 124.1	\$ 134.8
Current liabilities	\$ 23.8	\$ 22.7
Long-term liabilities	21.4	20.7
Financial service liabilities		0.9
Total liabilities of discontinued operations	\$ 45.2	\$ 44.3

Included in current liabilities at June 30, 2012 and December 31, 2011 is \$2.0 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 June 30, 2012 and December 31, 2011 is \$5.1 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 businesses.

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 Quarterly Report on 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 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.

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 June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Net sales	\$ 204.4	\$ 175.6	\$ 28.8	\$ 400.5	\$ 325.9	\$ 74.6
Cost of sales	155.2	135.7	19.5	306.0	252.8	53.2
Gross profit	49.2	39.9	9.3	94.5	73.1	21.4

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

Selling, engineering, general and administrative	33.5	29.3	4.2	67.6	60.0	7.6
Restructuring charge	(0.1)		(0.1)	0.8		0.8
Operating income	15.8	10.6	5.2	26.1	13.1	13.0
Interest expense	5.4	4.0	1.4	10.5	7.3	3.2
Debt settlement costs				1.6		1.6
Other expense (income), net	0.5	(0.2)	0.7	0.3		0.3
Income before income taxes	9.9	6.8	3.1	13.7	5.8	7.9
Income tax expense	(0.3)	(1.1)	0.8	(1.0)	(2.5)	1.5
Income from continuing operations	9.6	5.7	3.9	12.7	3.3	9.4
Loss from discontinued operations and disposal, net of tax	(26.1)	(1.3)	(24.8)	(30.2)	(4.7)	(25.5)
Net income (loss)	\$ (16.5)	\$ 4.4	\$ (20.9)	\$ (17.5)	\$ (1.4)	\$ (16.1)
Other data:						
Operating margin	7.7%	6.0%	1.7%	6.5%	4.0%	2.5%
Earnings (loss) per share continuing operations	\$ 0.15	\$ 0.09	\$ 0.06	\$ 0.20	\$ 0.05	\$ 0.15
Orders	\$ 207.5	\$ 207.5		\$ 430.6	\$ 397.1	\$ 33.5
Depreciation and amortization	\$ 3.4	\$ 3.3	\$ 0.1	\$ 6.6	\$ 6.5	\$ 0.1

Net Sales

Net sales increased \$28.8 million and \$74.6 million for the three and six months ended June 30, 2012, respectively, compared to the respective prior-year periods as a result of increased shipments across most segments, offset by lower demand in European and U.S. municipal police and fire markets.

Cost of Sales

Cost of sales increased \$19.5 million and \$53.2 million for the three and six months ended June 30, 2012, respectively, compared to the respective prior-year periods as a result of increased sales volume. Net sales increased 16% and 23% for the three and six months ended June 30, 2012 over the prior-year periods, which is consistent with the cost of sales increases.

Gross Profit

Gross profit increased \$9.3 million and \$21.4 million for the three and six months ended June 30, 2012, respectively, compared to the respective prior-year periods as a result of increased sales volume with an overall favorable change in product mix.

Restructuring Charges

During the six months ended June 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 \$5.2 million and \$13.0 million in the three and six months ended June 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.

Interest Expense

Interest expense increased \$1.4 million and \$3.2 million for the three and six months ended June 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, partly offset by interest expense allocated to discontinued operations of \$2.2 million and \$3.1 million for the three and six months ended June 30, 2012.

Debt Settlement Costs

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.

Other Expense (Income), Net

Other expense was \$0.5 million and \$0.3 million for the three and six months ended June 30, 2012, respectively, and income of \$0.2 million and expense of \$0.0 million in the respective prior-year periods.

Effective Tax Rate

The Company recognized an income tax provision of \$0.3 million and \$1.1 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, the Company recognized an income tax provision of \$1.0 million and \$2.5 million, respectively. The income tax provision for the three and six months ended June 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 3% and 16% for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, the Company's effective tax rate was 7% and 43%, respectively.

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

The Company's unrecognized tax benefits were \$4.3 million at June 30, 2012 and December 31, 2011, of which \$4.2 million 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. Interest and penalties amounting to \$0.2 million and \$0.1 million, respectively, are included in the condensed consolidated balance sheet at June 30, 2012. The Company expects the unrecognized tax benefits to decrease by \$1.6 million over the next twelve months.

Income from Continuing Operations

Income from continuing operations increased \$3.9 million and \$9.4 million for the three and six months ended June 30, 2012, respectively, compared to the respective prior-year periods as a result of improved operating income, partly offset by higher interest expense.

Discontinued Operations and Disposal

Loss from discontinued operations and disposal, net of tax was \$26.1 million and \$1.3 million for the three months ended June 30, 2012 and 2011, respectively. A loss was recognized of \$30.2 million and \$4.7 million from discontinued operations and disposals for the six months ended June 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 \$33.5 million or 8% for the six months ended June 30, 2012 and were unchanged for the three months ended June 30, 2012 compared to the prior-year periods. In the three months ended June 30, 2012, U.S. orders increased \$2.8 million or 2% and non-U.S. orders decreased \$2.8 million or 3% compared to the prior-year periods. In the six months ended June 30, 2012, U.S. orders increased \$27.0 million or 12% and non-U.S. orders increased \$6.5 million or 4%, compared to the prior-year periods.

U.S. municipal and government orders decreased 7%, or \$5.1 million, in the three months ended June 30, 2012 compared to the prior-year period, primarily resulting from order decreases of 7.2 million for street sweepers and \$3.8 million for sewer cleaners, offset by order increases of \$5.2 million for municipal products within the Safety and Security Systems Group. U.S. municipal and government orders increased 13% for the six months ended June 30, 2012. Orders in the Safety and Security Systems and Environmental Solutions segments improved \$11.0 million and \$4.8 million, respectively, for the six months ended June 30, 2012.

U.S. industrial orders increased 15% or \$7.9 million in the three months ended June 30, 2012 compared to the prior-year period, with order increases across all segments, including order increases of \$5.3 million, \$1.3 million and \$1.3 million, respectively, for the Fire Rescue, Environmental Solutions and the Safety and Security Systems segments. For the six months ended June 30, 2012, U.S. industrial orders increased \$11.0 million, or 10%, with increases across all segments. The largest improvement in the six-month period was within the Environmental Solutions segment, which contributed a 9% increase due to strong order intake of waterblasters. Orders for the Safety and Security Systems segment also improved by 9% or \$2.8 million.

Non-U.S. orders decreased 3%, or \$2.8 million, in the three months ended June 30, 2012 compared to the prior-year period. Environmental Solutions and Safety and Security Systems had decreases in non-U.S. orders of 17% and 12%, respectively, partly offset by strong demand within the Fire Rescue segment, which increased \$4.7 million. Non-U.S. orders increased 4%, or \$6.5 million, for the six months ended June 30, 2012 compared to the prior year, with an increase in the Fire Rescue segment of \$9.3 million, and decreases in the Safety and Security Systems segment of \$2.5 million and the Environmental Solutions segment of \$0.3 million.

Backlog was \$321.5 million at June 30, 2012, which was \$26.3 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 six-month periods ended June 30, 2012 and 2011, respectively:

(\$ in millions)	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 63.0	\$ 59.9	\$ 3.1	\$ 125.0	\$ 113.5	\$ 11.5
Backlog	39.6	22.9	16.7	39.6	22.9	16.7
Net sales	59.1	56.3	2.8	115.4	109.0	6.4
Operating income	6.3	6.3		10.9	11.5	(0.6)
Operating margin	10.7%	11.2%	(0.5%)	9.4%	10.6%	(1.2%)
Depreciation and amortization	\$ 1.1	\$ 1.1	\$	\$ 2.2	\$ 2.2	\$

Orders increased \$3.1 million for the three months ended June 30, 2012 compared to the respective prior-year period. U.S. orders increased \$6.5 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 \$3.4 million as weak demand in the European police and fire markets offset improvement in demand for industrial and outdoor warning systems. Orders increased \$11.5 million or 10% for the six months ended June 30, 2012 compared to the respective prior year period. U.S. orders increased \$14.0 million, primarily as a result of strong industrial demand. Non-U.S. orders decreased \$2.5 million, driven primarily by weak demand in European markets.

Net sales increased \$2.8 million for the three months ended June 30, 2012 compared to the respective prior-year period, primarily due to higher industrial and domestic municipal demand, offset by decreased demand in exports. Net sales increased \$6.4 million for the six months ended June 30, 2012 compared to the respective prior-year period as a result of increased U.S. industrial sales, strong demand in municipal and energy markets, partially offset by lower demand in European municipal police and fire markets.

Operating income was flat for the three months ended June 30, 2012 compared to the respective prior-year period despite sales increases, primarily resulting from increased inventory reserves. Operating income decreased \$0.6 million for the six months ended June 30, 2012 compared to the respective prior year period due to increased inventory reserves and restructuring charges. During the first quarter of 2012, the

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

Company recorded a restructuring charge of \$0.9 million in the Safety and Security Group, which contributed to the decrease in operating income compared to the prior-year period.

Fire Rescue

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

(\$ in millions)	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 40.6	\$ 30.6	\$ 10.0	\$ 77.6	\$ 66.8	\$ 10.8
Backlog	90.4	83.0	7.4	90.4	83.0	7.4
Net sales	33.3	24.7	8.6	65.1	45.9	19.2
Operating income	1.7	0.7	1.0	2.5	1.5	1.0
Operating margin	5.1%	2.8%	2.3%	3.8%	3.3%	0.5%
Depreciation and amortization	\$ 0.7	\$ 0.6	\$ 0.1	\$ 1.3	\$ 1.2	\$ 0.1

Orders increased \$10.0 million for the three months ended June 30, 2012 compared to the respective prior-year period. The increase is due to improved demand in the Asian market for fire-lift products and in Australia for industrial and rental products. Orders increased \$10.8 million for the six months ended June 30, 2012 compared to the respective prior year period, primarily as result of strong demand for the fire-lift product in the Asian market, partially offset by a soft European market.

Net sales increased \$8.6 million and \$19.2 million for the three and six months ended June 30, 2012 compared to the respective prior-year periods as a result of increased Asian and Australian business together with some increased shipments to European markets, offset by an unfavorable currency impact.

Operating income increased by \$1.0 million for both the three and six months ended June 30, 2012, compared to the respective prior-year periods. For the three months ended June 30, 2012, operating income increased due to higher volumes, partly offset by unfavorable currency impact. For the six months ended June 30, 2012 compared to the respective prior-year period, operating income increased due to higher volumes, slightly offset by product mix resulting in lower margins and unfavorable currency impact.

Environmental Solutions

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

(\$ in millions)	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Orders	\$ 103.9	\$ 117.0	\$ (13.1)	\$ 228.0	\$ 216.8	\$ 11.2
Backlog	191.5	128.3	63.2	191.5	128.3	63.2
Net sales	112.0	94.6	17.4	220.0	171.0	49.0
Operating income	12.5	9.2	3.3	24.5	10.1	14.4
Operating margin	11.2%	9.7%	1.5%	11.1%	5.9%	5.2%
Depreciation and amortization	\$ 1.3	\$ 1.3	\$	\$ 2.6	\$ 2.5	\$ 0.1

Orders of \$103.9 million in the second quarter decreased \$13.1 million compared to the same quarter in 2011. U.S. orders decreased \$9.0 million from the prior-year period largely reflecting declines in orders for street sweepers, municipal sewer cleaners, and vacuum trucks, offset by an increase in waterblaster orders. Non-U.S. orders declined \$4.1 million from the prior-year period. Year to date orders of \$228.0 million were up from the previous year by \$11.2 million, or 5%. U.S. orders were up 7%, or \$11.5 million, from the prior year, primarily as a result of increases in orders for municipal sewer cleaners and waterblasters, offset by declines in street sweeper orders. Non-U.S. orders showed modest declines of \$0.3 million from the prior year.

Net sales increased \$17.4 million and \$49.0 million for the three and six months ended June 30, 2012 compared to the respective prior-year periods as a result of increased shipments, both domestically and internationally.

Operating income increased \$3.3 million and \$14.4 million for the three and six months ended June 30, 2012, respectively, compared to the respective prior-year periods due to higher gross margins resulting from increased volumes, somewhat offset by an unfavorable product mix between domestic and international markets.

Corporate Expenses

Corporate expenses were \$4.7 million and \$5.6 million for the three months ended June 30, 2012 and 2011, respectively.

Corporate expenses for the six months ended June 30, 2012 were \$11.8 million and \$10.0 million for the comparable period in 2011. The increase was due primarily to higher incentive compensation expense and debt-related legal fees.

Corporate expenses included depreciation and amortization expense of \$0.3 million and \$0.5 million for the three and six months ended June 30, 2012, respectively, and \$0.3 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 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 six-month periods ended June 30, 2012 and 2011:

(\$ in millions)	Six months ended June 30,	
	2012	2011
Net cash used for operating activities	\$ (0.5)	\$ (6.5)
Purchases of properties and equipment	(5.5)	(6.6)
Proceeds from sales of properties, plant and equipment	1.0	0.9
Increase in restricted cash	(1.5)	
Borrowing activity, net	13.5	(28.4)
Payments of debt financing fees	(6.2)	(2.1)
Net cash (used for) provided by discontinued financing activities	(0.9)	0.1
Cash dividends paid to shareholders		(3.7)
Other, net	0.9	(1.5)
Increase (decrease) in cash and cash equivalents	\$ 0.8	\$ (47.8)

Cash used for operating activities for the six months ended June 30, 2012 was \$0.5 million compared to \$6.5 million for the respective prior-year period. The change is primarily due to improved operating results.

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 is 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.

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

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 June 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, 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 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 contains 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 June 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.

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 effectively refinanced short-term debt on a long-term basis subsequent to the 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.

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

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

As of June 30, 2012, the available borrowing base under the ABL Facility was \$79.7 million. As of June 30, 2012, there was \$18.2 million in cash drawn and \$32.8 million of undrawn letters of credit under the ABL Facility, reducing net availability for borrowings to \$28.7 million.

As of June 30, 2012, \$3.9 million was drawn against the Company's non-U.S. lines of credit which provide for borrowings up to \$13.9 million.

Aggregate maturities of total borrowings amount to approximately \$4.0 million in 2012, \$21.7 million in 2013, \$32.3 million in 2014, \$32.3 million in 2015, \$32.3 million in 2016, and \$114.1 million thereafter. These maturities primarily reflect the payment terms outlined in the ABL Facility and the Term Loan. The fair values of borrowings aggregated \$236.7 million and \$221.5 million at June 30, 2012 and December 31, 2011, respectively. Included in current maturities are \$3.9 million of other non-U.S. lines of credit, \$10.8 million of Term Loan, and \$0.1 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 \$8.0 million of debt issuance costs associated with the execution of its new debt agreements through June 30, 2012. Financing costs incurred related to the new debt agreements are deferred and amortized over the remaining life of the new debt. At June 30, 2012 and December 31, 2011, deferred financing fees totaled \$7.3 million and \$1.0 million, respectively, and are included in deferred charges and other assets on the condensed consolidated balance sheet.

Of the total \$8.0 million debt financing costs incurred to date associated with the execution of the new debt agreements, the Company paid \$6.2 million in the six months ended June 30, 2012. In the six months ended June 30, 2011, the Company paid \$2.1 million in fees associated with the prior debt agreements. In accordance with ASC 470-50, the debt and third-party fees related to the Third Amendment and Waiver 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 2.49% at June 30, 2012.

The Company anticipates that capital expenditures for 2012 will approximate \$16 million, and will be restricted to no more than \$20 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 \$3.9 million at June 30, 2012 from \$9.0 million at December 31, 2011. Total long-term borrowings, including a current portion of the long-term borrowing, increased to \$232.8 million at June 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 six months ended June 30, 2012 are discussed in Note 9 of the condensed consolidated financial statements included in 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 Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 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 June 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.

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 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.

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 August 3, 2012, the Company issued a press release announcing its financial results for the three and six months ended June 30, 2012. The full text of the press release is included as Exhibit 99.1 to this Form 10-Q.

Item 6. Exhibits

10.1	Executive General Severance Plan, as amended and restated August 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 August 3, 2012
101.INS (1)	XBRL Instance Document
101.SCH (1)	XBRL Taxonomy Extension Schema Document
101.CAL (1)	XBRL Taxonomy Calculation Linkbase Document
101.DEF (1)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (1)	XBRL Taxonomy Label Linkbase Document

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

101.PRE (1) XBRL Taxonomy Presentation Linkbase Document

(1) 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.

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: August 3, 2012

By: /s/ William G. Barker, III
William G. Barker, III
Senior Vice President and Chief Financial Officer