FEDERAL SIGNAL CORP /DE/
Form 10-Q
July 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-6003

FEDERAL SIGNAL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§ 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 ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of June 30, 2014, the number of shares outstanding of the registrant's common stock was 62,751,181.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q") is being filed by Federal Signal Corporation and its subsidiaries (referred to collectively as the "Company" herein, unless the context otherwise indicates) with the Securities and Exchange Commission (the "SEC"), and includes comments made by management that may contain words such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "project," "estimate," and "objective" or similar terminology, or the thereof, concerning the Company's future financial performance, business strategy, plans, goals, and objectives. These expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning the Company's possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties, and other factors that may cause the Company's actual results, performance, or achievements to be materially different.
These risks and uncertainties, some of which are beyond the Company's control, include the cyclical nature of the Company's industrial, municipal, governmental, and commercial markets; 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 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 personnel; disruptions within our dealer network; work stoppages and other labor relations matters; increased pension funding requirements and expenses beyond our control; costs of compliance with environmental and safety regulations; our ability to use net operating loss ("NOL") carryovers to reduce future tax payments; charges related to goodwill; our ability to expand our business through successful future acquisitions; and unknown or unexpected contingencies in our business or in businesses acquired by us. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 5, 2014. 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 periodically. The Company cannot predict such factors, nor can it assess the impact, if any, of such factors on its results of operations, financial position, or cash flows. Accordingly, forward-looking statements should not be relied upon as a predictor of future actual results. The Company disclaims any responsibility to update any forward-looking statement provided in this Form 10-Q.

ADDITIONAL INFORMATION

The Company is subject to the reporting and information requirements of the Exchange Act and, as a result, is obligated to file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports and information with the SEC, as well as amendments to those reports. The Company makes these filings available free of charge through our website at www.federalsignal.com as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC. Information on our website does not constitute part of this Form 10-Q. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically. All materials that we file with, or furnish to, the SEC may also be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

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Part I. Financial Information
Item 1. Financial Statements
FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2014	2013	2014	2013
Net sales	$234.6	$222.6	$434.8	$422.4
Cost of sales	175.7	170.8	329.1	323.8
Gross profit	58.9	51.8	105.7	98.6
Selling, engineering, general and administrative expenses	34.9	34.2	69.1	68.9
Restructuring	0.1	(0.6)	(0.1)	(0.6)
Operating income	23.9	18.2	36.7	30.3
Interest expense	0.9	1.7	1.9	6.2
Debt settlement charges	—	—	—	8.7
Other expense (income), net	0.3	0.1	0.3	(0.1)
Income before income taxes	22.7	16.4	34.5	15.5
Income tax (expense) benefit	(5.7)	101.4	(9.9)	101.2
Income from continuing operations	17.0	117.8	24.6	116.7
Gain (loss) from discontinued operations and disposal, net of income tax expense of $0.0, $0.2, $0.0, and $0.2, respectively	0.1	(0.3)	(0.1)	0.2
Net income	$17.1	$117.5	$24.5	$116.9
Basic earnings per share:				
Earnings from continuing operations	$0.27	$1.88	$0.39	$1.87
Gain (loss) from discontinued operations and disposal, net of tax	—	—	—	—
Net earnings per share	$0.27	$1.88	$0.39	$1.87
Diluted earnings per share:				
Earnings from continuing operations	$0.27	$1.87	$0.39	$1.86
Gain (loss) from discontinued operations and disposal, net of tax	—	—	—	—
Net earnings per share	$0.27	$1.87	$0.39	$1.86
Weighted average common shares outstanding:				
Basic	62.8	62.5	62.8	62.4
Diluted	63.8	62.9	63.8	62.8
Cash dividends declared per common share	$0.03	$—	$0.03	$—

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Net income	$17.1	$117.5	$24.5	$116.9
Other comprehensive income:				
Change in foreign currency translation adjustment	0.4	1.2	0.4	(4.5)
Change in unrecognized gains related to pension benefit plans, net of income tax expense of $0.4, $0.0, $0.8, and $0.5, respectively	0.6	2.1	1.4	5.4
Unrealized net gain (loss) on derivatives, net of income tax expense (benefit) of $(0.1), $0.2, $(0.1), and $0.0, respectively	(0.2)	1.1	(0.2)	0.5
Total other comprehensive income	0.8	4.4	1.6	1.4
Comprehensive income	$17.9	$121.9	$26.1	$118.3

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$24.2	$ 23.8
Accounts receivable, net of allowances for doubtful accounts of $1.4 and $2.3, respectively	105.0	95.6
Inventories	124.3	109.8
Prepaid expenses	14.5	12.6
Other current assets	12.1	21.8
Current assets of discontinued operations	1.6	1.9
Total current assets	281.7	265.5
Properties and equipment, net	68.5	63.8
Goodwill	273.6	273.8
Deferred tax assets	22.9	33.1
Deferred charges and other long-term assets	8.2	5.1
Long-term assets of discontinued operations	3.6	3.5
Total assets	$658.5	$ 644.8
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Short-term borrowings	$5.0	$ —
Current portion of long-term borrowings and capital lease obligations	7.9	7.4
Accounts payable	58.7	50.5
Customer deposits	18.6	11.2
Accrued liabilities:		
Compensation and withholding taxes	23.7	25.7
Other current liabilities	33.6	35.4
Current liabilities of discontinued operations	2.0	2.4
Total current liabilities	149.5	132.6
Long-term borrowings and capital lease obligations	62.6	84.7
Long-term pension and other postretirement benefit liabilities	32.9	36.9
Deferred gain	15.5	16.5
Other long-term liabilities	16.7	17.0
Long-term liabilities of discontinued operations	5.8	6.1
Total liabilities	283.0	293.8
Shareholders’ equity:		
Common stock, $1 par value per share, 90.0 shares authorized, 64.0 and 63.8 shares issued, respectively	64.0	63.8
Capital in excess of par value	180.4	177.0
Retained earnings	191.5	168.9
Treasury stock, at cost, 1.3 and 1.0 shares, respectively	(20.1)	(16.8)
Accumulated other comprehensive loss	(40.3)	(41.9)
Total shareholders’ equity	375.5	351.0
Total liabilities and shareholders’ equity	$658.5	$ 644.8

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
(in millions)	2014	2013
Operating activities:		
Net income	$24.5	$116.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on discontinued operations and disposal	0.1	(0.2)
Depreciation and amortization	7.3	6.9
Deferred financing costs	0.2	4.8
Deferred gain	(1.0)	(1.0)
Stock-based compensation expense	2.8	1.8
Pension expense, net of funding	(2.4)	(0.2)
Provision for doubtful accounts	0.1	0.2
Deferred income taxes, including changes in valuation allowance	12.0	(94.9)
Changes in operating assets and liabilities, net of effects from dispositions of companies	(19.9)	(23.4)
Net cash provided by continuing operating activities	23.7	10.9
Net cash used for operating activities of discontinued operations	(0.3)	(5.0)
Net cash provided by operating activities	23.4	5.9
Investing activities:		
Purchases of properties and equipment	(9.4)	(9.5)
Proceeds from sales of properties and equipment	0.1	1.5
Proceeds from escrow receivable	7.0	—
Decrease in restricted cash	—	1.0
Net cash used for continuing investing activities	(2.3)	(7.0)
Net cash provided by investing activities of discontinued operations	—	—
Net cash used for investing activities	(2.3)	(7.0)
Financing activities:		
(Decrease) increase in revolving lines of credit, net	(20.0)	66.5
Increase (decrease) in short-term borrowings, net	5.0	(0.3)
Proceeds from issuance of long-term borrowings	—	75.0
Payments on long-term borrowings	(1.4)	(150.7)
Payments of debt financing fees	—	(6.2)
Purchases of treasury stock	(3.3)	—
Cash dividends paid	(1.9)	—
Proceeds from stock compensation activity	1.1	—
Other, net	(0.4)	0.9
Net cash used for continuing financing activities	(20.9)	(14.8)
Net cash provided by financing activities of discontinued operations	—	—
Net cash used for financing activities	(20.9)	(14.8)
Effects of foreign exchange rate changes on cash and cash equivalents	0.2	(0.7)
Increase (decrease) in cash and cash equivalents	0.4	(16.6)
Cash and cash equivalents at beginning of period	23.8	29.7
Cash and cash equivalents at end of period	$24.2	$13.1

See notes to condensed consolidated financial statements.

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

(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	$63.8	$177.0	$168.9	$(16.8)	$ (41.9)	$351.0
Net income			24.5			24.5
Total other comprehensive income					1.6	1.6
Cash dividends declared			(1.9)			(1.9)
Stock-based payments:						
Stock-based compensation		2.2				2.2
Stock option exercises and other	0.2	1.2				1.4
Stock repurchase program				(3.3)		(3.3)
Balance at June 30, 2014	$64.0	$180.4	$191.5	$(20.1)	$ (40.3)	$375.5
Balance at December 31, 2012	$63.4	$171.1	$8.9	$(16.4)	$ (80.1)	$146.9
Net income			116.9			116.9
Total other comprehensive income					1.4	1.4
Stock-based payments:						
Stock-based compensation		1.8				1.8
Stock option exercises and other	0.2	0.7		(0.2)		0.7
Balance at June 30, 2013	$63.6	$173.6	$125.8	$(16.6)	$ (78.7)	$267.7

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Organization and Description of the Business
Federal Signal Corporation was founded in 1901 and was reincorporated as a Delaware corporation in 1969. References herein to the “Company,” “we,” “our,” or “us” refer collectively to Federal Signal Corporation and its subsidiaries. Products manufactured and services rendered by the Company are divided into three major operating segments: Environmental Solutions, Safety and Security Systems, and Fire Rescue. The individual operating businesses are organized under each segment because they share certain characteristics, including technology, marketing, distribution, and product application, which create long-term synergies. The Company's reportable segments are consistent with its operating segments. These segments are discussed in Note 9, Segment Information.
Basis of Presentation and Consolidation
The accompanying unaudited condensed consolidated financial statements represent the consolidation of Federal Signal Corporation and its subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to ensure the information presented is not misleading. These condensed consolidated financial statements have been prepared in accordance with the Company’s accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, and should be read in conjunction with those consolidated financial statements and the notes thereto.
These statements include all adjustments, including those of a normal recurring nature, that we considered necessary to present a fair statement of our results of operations, financial position, and cash flows. Intercompany balances and transactions have been eliminated in consolidation. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. While we label our quarterly information using a calendar convention whereby our first, second, and third quarters are labeled as ending on March 31, June 30, and September 30, respectively, it is our longstanding practice to establish interim quarterly closing dates based on a 13-week period ending on a Saturday with the fiscal year ending on December 31. The effects of this practice are not material and exist only within a reporting year.
We have reclassified certain prior period amounts to conform to the current period presentation.
Recent Accounting Pronouncements and Accounting Changes
In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this update is fixed at the reporting date, except for obligations addressed within existing U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The new requirements are effective for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. Retrospective presentation for all comparative periods presented is required. The Company’s adoption of the guidance on January 1, 2014 did not have an impact on its results of operations, financial position, or cash flows.
In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830), Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This guidance clarifies the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. The

new requirements are effective prospectively for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The

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Company's adoption of the guidance on January 1, 2014 did not have an impact on its results of operations, financial position, or cash flows.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new requirements are effective prospectively for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The Company's adoption of the guidance on January 1, 2014 did not have a material impact on its results of operations, financial position, or cash flows.

In September 2013, the Internal Revenue Service ("IRS") released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the deduction and capitalization of expenditures related to tangible property. The final regulations replaced temporary regulations that were issued in December 2011. The IRS also released proposed regulations under Section 168 of the Code regarding dispositions of tangible property. These final and proposed regulations are effective for the Company's fiscal year ending December 31, 2014. The Company's adoption of the regulations on January 1, 2014 did not have a material impact on its results of operations, financial position, or cash flows.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update revises the required criteria for reporting disposals as discontinued operations, whereby such disposals must represent strategic shifts that had (or will have) a major effect on an entity's operations and financial results. The guidance also requires additional disclosures about discontinued operations, including expanded disclosure of any significant ongoing involvement. The new requirements are effective prospectively for all disposals that occur within fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. The Company continues to review the requirements, but does not believe there will be a material impact on its results of operations, financial position, or cash flows when they are adopted.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This new guidance is effective for annual reporting periods beginning on or after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Use of Estimates

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

There have been no changes to the Company's significant accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)
(Unaudited)

NOTE 2 – INVENTORIES
The following table summarizes the components of inventories:

(in millions)	June 30, 2014	December 31, 2013
Raw materials	$53.5	$ 46.1
Work in progress	31.1	24.3
Finished goods	39.7	39.4
Total inventories	$124.3	$ 109.8

NOTE 3 – DEBT
The following table summarizes the components of long-term borrowings and capital lease obligations:

(in millions)	June 30, 2014	December 31, 2013
Senior Secured Credit Facility:		
Revolving credit facility	$—	$20.0
Term loan	69.4	70.8
Capital lease obligations	1.1	1.3
Total long-term borrowings and capital lease obligations, including current portion	70.5	92.1
Less: Current maturities	7.5	7.0
Less: Current capital lease obligations	0.4	0.4
Total long-term borrowings and capital lease obligations, net	$62.6	$84.7

As more fully described within Note 1, Significant Accounting Policies, in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, the Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The carrying value of short-term debt approximates fair value due to its short maturity (Level 2 input). The fair value of long-term debt is based on interest rates that we believe are currently available to us for issuance of debt with similar terms and remaining maturities (Level 2 input).
The following table summarizes the carrying amounts and fair values of the Company's financial instruments:

	June 30, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Short-term debt	$5.0	$5.0		