FEDERAL SIGNAL CORP /DE/
Form 10-Q
May 02, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

o **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 Company 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, IL 60523
(Address of principal executive offices) (Zip code)
(630) 954-2000
(Company s telephone number including area code)
Not applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company o

Indicate by check mark whether the Company is a shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Title	
Common Stock, $1.00 par value	47,997,478 shares outstanding at April 13, 2008

FEDERAL SIGNAL CORPORATION
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Part I. Financial Information
Item 1. Financial Statements

FORWARD-LOOKING STATEMENTS

This Form 10-Q, reports filed by Federal Signal Corporation and Subsidiaries (the Company) with the Securities and Exchange Commission (SEC) and comments made by management may contain words such as may, will, believ expect, anticipate, intend, plan, project, estimate and objective or the negative thereof or similar 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 and municipal markets, technological advances by competitors, the Company s ability to improve its operating performance in its fire rescue plants, risks associated with dealers and distributors, risks associated with system conversions, increased warranty and product liability expenses, risks associated with supplier and other partner alliances, changes in cost competitiveness including those resulting from foreign currency movements, disruptions in the supply of parts or components from sole source suppliers and subcontractors, commodity price escalation, availability of credit, retention of key employees and general changes in the competitive environment in which the Company operates.

ADDITIONAL INFORMATION

The Company makes its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports and information filed with the SEC and amendments to those reports available, free of charge, through its Internet website *(http://www.federalsignal.com)* as soon as reasonably practical after it electronically files or furnishes such materials to the SEC. All of the Company s 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 1-202-551-8090. 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.

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

	Three months ended March 31,	
($ in millions, except share data)	**2008**	**2007**
Net sales	$ 228.1	$ 213.0
Costs and expenses:		
Cost of sales	(168.2)	(157.4)
Selling, general and administrative	(47.2)	(38.8)
Operating income	12.7	16.8
Interest expense	(6.8)	(6.1)
Other expense, net	(0.5)	(0.3)
Income before income taxes	5.4	10.4
Income tax expense	(1.1)	(3.1)
Income from continuing operations	4.3	7.3
(Loss) gain from discontinued operations and disposal, net of income tax benefit (expense), of $13.6 and $(5.9), respectively	(89.2)	23.4
Net (loss) income	$ (84.9)	$ 30.7
COMMON STOCK DATA:		
Basic and diluted earnings per share:		
Earnings from continuing operations	$ 0.09	$ 0.15
(Loss) gain from discontinued operations and disposal	(1.86)	0.49
(Loss) earnings per share	$ (1.77)	$ 0.64
Weighted average common shares outstanding:		
Basic	47.9	47.8
Diluted	47.9	47.8
Cash dividends per share of common stock	$ 0.06	$ 0.06

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
($ in millions)	**2008**	**2007**
Net (loss) income	$ (84.9)	$ 30.7
Other comprehensive (loss) income, net of tax -		
Foreign currency translation	9.3	0.5
Net derivative income (loss), cash flow hedges	0.9	(0.3)
Amortization of actuarial pension loss, net	0.1	
Comprehensive (loss) income	$ (74.6)	$ 30.9

See notes to condensed consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

($ in millions)	**March 31, 2008**	**December 31, 2007 (a)**
ASSETS		
Manufacturing activities:		
Current assets		
Cash and cash equivalents	$ 9.0	$ 12.5
Accounts receivable, net of allowances for doubtful accounts of $5.7 million and $3.8 million, respectively	152.7	147.8
Inventories	137.5	121.8
Other current assets	36.7	41.2
Total current assets	335.9	323.3
Properties and equipment, net	66.3	59.6
Other assets		
Goodwill, net of accumulated amortization	349.9	344.7
Intangible assets, net	64.3	65.2
Deferred charges and other assets	9.2	7.2
Total manufacturing assets	825.6	800.0
Assets of discontinued operations	149.4	232.9
Financial services activities Lease financing and other receivables, net of allowances for doubtful accounts of $3.7 million and $3.6 million, respectively	129.9	146.8
Total assets	$ 1,104.9	$ 1,179.7
LIABILITIES AND SHAREHOLDERS EQUITY		
Manufacturing activities:		
Current liabilities		
Short-term borrowings	$ 5.1	$ 2.6
Current portion of long-term borrowings	48.2	45.4
Accounts payable	65.4	66.2
Accrued liabilities		
Compensation and withholding taxes	24.9	26.8
Customer deposits	21.4	17.7
Other	47.6	53.6
Total current liabilities	212.6	212.3
Long-term borrowings	252.5	240.7
Long-term pension and other liabilities	32.3	32.3
Deferred income taxes	41.3	39.3
Total manufacturing liabilities	538.7	524.6
Liabilities of discontinued operations	76.4	72.4
Financial services activities Borrowings	121.9	137.4

Total liabilities	737.0	734.4
Shareholders equity		
Common stock, $1 par value per share, 90.0 million shares authorized, 49.5 million and 49.4 million shares issued, respectively	49.5	49.4
Capital in excess of par value	103.5	103.2
Retained earnings	245.7	333.8
Treasury stock, 1.5 million shares at cost	(30.1)	(30.1)
Accumulated other comprehensive (loss) income		
Foreign currency translation, net	25.2	15.9
Net derivative loss, cash flow hedges, net	(1.1)	(2.0)
Unrecognized pension and postretirement losses, net	(24.8)	(24.9)
Total	(0.7)	(11.0)
Total shareholders equity	367.9	445.3
Total liabilities and shareholders equity	$ 1,104.9	$ 1,179.7

See notes to condensed consolidated financial statements.

(a) The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date and have been restated for discontinued operations.

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

	Three months ended March 31,	
($ in millions)	**2008**	**2007**
Operating activities:		
Net (loss) income	$ (84.9)	$ 30.7
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:		
Loss (gain) on discontinued operations and disposal	89.2	(23.4)
Depreciation and amortization	4.3	2.6
Stock based compensation expense	1.1	1.0
Lease financing and other receivables	16.9	(0.4)
Pension contributions	(0.4)	(6.2)
Working capital (1)	(12.4)	5.1
Other	(3.6)	(6.5)
Net cash provided by continuing operating activities	10.2	2.9
Net cash provided by (used for) discontinued operating activities	1.1	(11.6)
Net cash provided by (used for) operating activities	11.3	(8.7)
Investing activities:		
Purchases of properties and equipment	(7.7)	(4.2)
Payment for acquisitions, net of cash acquired		(16.6)
Other, net		(2.0)
Net cash used for continuing investing activities	(7.7)	(22.8)
Net cash (used for) provided by discontinued investing activities	(0.9)	66.5
Net cash (used for) provided by investing activities	(8.6)	43.7
Financing activities:		
Decrease in short-term borrowings, net	(2.5)	(26.1)
(Payments on) proceeds from long-term borrowings, net	(0.9)	4.1
Cash dividends paid to shareholders	(2.9)	(2.9)
Other, net	(0.8)	
Net cash used for continuing financing activities	(7.1)	(24.9)
Net cash used for financing activities	(7.1)	(24.9)
Effects of foreign exchange rate changes on cash	0.9	0.1
(Decrease) increase in cash and cash equivalents	(3.5)	10.2
Cash and cash equivalents at beginning of period	12.5	15.7

Cash and cash equivalents at end of period	$	9.0	$	25.9

(1) Working capital is composed of net accounts receivable, inventories, accounts payable and customer deposits.

See notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Federal Signal Corporation and subsidiaries (the Company) included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

In the opinion of the management of the Company, the information contained herein reflects all adjustments necessary to present fairly the Company s financial position, results of operations and cash flows for the interim periods. Such adjustments are of a normal recurring nature. The operating results for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year of 2008.

The Company reports its interim quarterly periods on a 13-week basis ending on a Saturday with the fiscal year ending on December 31. For convenience purposes, the Company uses March 31, 2007 to refer to its financial position as of April 1, 2007 and its results of operations for the 13-week period ended April 1, 2007. It also uses March 31, 2008 to refer to its financial position as of March 29, 2008 and its results of operations for the 13-week period ended March 29, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Reclassifications: Certain balances in 2007 have been reclassified to conform to the 2008 presentation. Included with the reclassifications are restatements for discontinued operations. The discontinued operations arise out of the Fire Rescue Group and Tool segments.

Earnings per share: Basic earnings per share (EPS) is computed by dividing net income by the weighted average common shares outstanding, which totaled 47.9 million and 47.8 million for 2008 and 2007, respectively. Diluted earnings per share is calculated by dividing net income by the weighted average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of stock options and performance share units that are dilutive. The Company uses the treasury stock method to calculate dilutive shares. As of March 31, 2008 and 2007, 31,886 and 8,575 employee stock options, respectively, were considered potential dilutive common shares. These shares, however, are antidilutive due to the net loss for the quarter ended March 31, 2008. As a result, they are excluded from the denominator for the diluted earnings per share calculation. The weighted average number of shares outstanding, for diluted earnings per share were 47.9 million and 47.8 million for 2008 and 2007, respectively. In 2008 and 2007, options to purchase 2.1 million and 2.3 million shares of common stock, respectively, were excluded from the calculation of the number of shares outstanding for diluted EPS because their effects were antidilutive. In 2008, 41,200 performance share units were also excluded from the calculation of the number of shares outstanding for diluted EPS because their effects were antidilutive.

Fair value of financial instruments: In September 2006, the Financial Accounting Standards Board (FASB) issued FAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-b, Effective Date of FASB Statement No. 157 (FSP 157-b), which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with this interpretation, the Company has only adopted the provisions of FAS 157 with respect to its financial assets and liabilities that are measured at fair value within the financial statements as of January 1, 2008. The adoption of FAS 157 did not have a material impact on the Company s fair value measurements. The provisions of FAS 157 have not been applied to non-financial assets and non-financial liabilities.

In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted this statement as of January 1, 2008 and has elected not to apply the fair value option to any of its financial

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instruments at this time.

Stock-based compensation plans*:* The Company accounts for stock-based compensation awards in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment.

During the first quarter of 2008, 544,000 stock options were granted with an exercise price equal to the market price of the Company s common stock as of the date of grant. Options granted during the first quarter of 2008, vest equally over a three-year period and have a ten-year contractual term. Compensation expense equal to the fair value of the options at the grant date is recognized for these awards over the vesting period.

The fair value of each stock option is estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions noted in the following table.

	Three months ended March 31,	
	2008	2007
Dividend yield	1.7%	1.5%
Expected volatility	490.1%	32.6%
Risk free interest rate	3.3%	4.6%
Weighted average expected option life in years	6.4	7.0

The expected life of options represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the Company s historical exercise patterns. The risk-free interest rate is based on the US Treasury yield curve in effect at the time of the grant for periods corresponding with the expected life of the options. Expected volatility is based on historical volatilities of the Company s common stock. Dividend yields are based on historical dividend payments.

The weighted-average fair value of options granted during the first quarter of 2008 and 2007 was $9.50 per share and $5.93 per share, respectively.

During the first quarter of 2008, 311,710 restricted stock awards and units were also granted to employees at no cost. These awards vest at the third anniversary from the date of award, provided the recipient is still employed by the Company on the vesting date. The cost of restricted stock, based on the fair market value at the date of grant, is charged to expense over the vesting period. The Company also granted 41,200 performance-based restricted shares that are based on achievement of certain predetermined corporate performance goals at the end of a three-year cycle. The grant date fair value of these awards was $12.78 per share. Compensation expense for these awards is recognized over three years.

The total compensation expense related to all share-based compensation plans was $1.1 million and $1.0 million for the three months ended March 31, 2008 and 2007, respectively.

Split-dollar life insurance arrangements: In September 2006, the EITF issued EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Split-Dollar Life Insurance Arrangements . EITF 06-04 concludes that an employer should recognize a liability for post-employment benefits promised to an employee. This guidance is effective for fiscal years beginning after December 15, 2007. The Company has one arrangement that meets these criteria and recorded a liability of approximately $0.3 million in 2008.

3. INVENTORIES

Inventories are summarized as follows:

	March 31, 2008	December 31, 2007
Raw materials	$ 65.0	$ 62.3
Work in progress	34.0	26.4
Finished goods	38.5	33.1
Total inventories	$ 137.5	$ 121.8

4. INCOME TAXES

The Company s effective tax rate for continuing operations was 19.3% and 30.1% for the three month periods ended March 31, 2008 and 2007, respectively.

The lower tax rate for the three month period ending March 31, 2008, reflects an increased benefit from foreign tax rate effects as well as the successful resolution of certain foreign and state income tax uncertainties under FIN 48 which provided a 9% benefit.

The three month period ending March 31, 2007, reflects research and development tax credit benefits of about 1.0% that are not reflected in the three month period ended March 31, 2008, as Congress has not yet extended the credit.

The Company expects the tax rate for the year to be in the range of 26 29%.

The Company s unrecognized tax benefits were $8.3 million at December 31, 2007. Settlement of those unrecognized tax benefits that affect the effective tax rate could increase earnings. The Company does not expect the unrecognized tax benefits to change significantly over the next 12 months. In the first quarter of 2008 the Company recognized $0.5 million of previously unrecognized tax benefits.

5. POSTRETIREMENT BENEFITS

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

	US Benefit Plans Three months ended March 31,		**Non-US Benefit Plan Three months ended March 31,**	
	2008	**2007**	**2008**	**2007**
Service cost	$ 0.1	$ 0.2	$ 0.1	$ 0.1
Interest cost	2.3	2.2	0.9	0.8
Expected return on plan assets	(2.7)	(2.7)	(1.1)	(1.0)
Amortization of actuarial loss	0.2	0.3	0.1	0.1
Net periodic pension income	$ (0.1)	$	$	$

The Company contributed $0.0 million and $5.0 million to its U.S. defined benefit plans and $0.4 million and $1.2 million to its non-U.S. defined benefit plan during the three months ended March 31, 2008 and 2007, respectively.

On July 17, 2006, an amendment to the Company s U.S. defined benefit plans for all of the Company s employees, except for University Park, Illinois IBEW employees within the Safety and Security Systems Group was approved by the Company s Board of Directors. The amendment froze service accruals as of December 31, 2006. On April 21, 2008, the Company sold its Tool segment. As a result of the sale of these businesses, the operations have been included in discontinued operations for all periods presented. Pension expense relating to the Tool segment employees was $0.3 million in the three months ended March 31, 2008 and 2007 primarily as a result of continued service costs. These amounts are included in income from discontinued operations as they relate to the Company s discontinued Tool segment.

6. DEBT

The Company has a $250.0 million line under its Revolving Credit Agreement. On September 6, 2007 Federal Signal of Europe B.V. y CIA , SC, a restricted subsidiary of the Company, entered into a Supplemental Agreement to the Company s Second Amended and Restated Credit Agreement (Credit Agreement) whereby Federal Signal of Europe B.V. y CIA , SC, became a Designated Alternative Currency Borrower for the purpose of making swing loans denominated in Euros.

As of March 31, 2008, 20.2 million euros were drawn on the Supplemental Agreement and $71.0 million were drawn on the Amended Credit Agreement for a total of $103.0 million drawn under the Credit Agreement.

In March 2008, the Company requested and was granted an amendment (the Second Amendment) to the Credit Agreement. Affected items in the Second Amendment included the definitions of Consolidated Net Worth and EBIT, reducing the Total Indebtedness to Capital ratio maximum to ..50, reducing the minimum Interest Coverage Ratio requirement which now ranges

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from 2:1 to 2.75:1 for the four quarters ending in 2008, reducing the required minimum percentage of consolidated assets directly owned by the Credit Agreement s borrower and guarantors to 50%. The amendment allows for the unencumbered sale of the E-One business.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three months ended March 31, 2008, by operating segment, were as follows:

	Safety Security Systems	Fire Rescue	Environmental Solutions	Total
Net book value at December 31, 2007	$ 182.5	$ 35.5	$ 126.7	$ 344.7
Translation	3.5	1.2	0.5	5.2
Net book value at March 31, 2008	$ 186.0	$ 36.7	$ 127.2	$ 349.9

The components of the Company s other intangible assets as of March 31, 2008 were as follows:

($'s in millions)	Weighted-average useful life (Years)	Gross carrying value	Accumulated amortization	Net carrying value
Amortizable:				
Developed software	6	$ 24.2	$ (11.8)	$ 12.4
Patents	5-10	0.7	(0.5)	0.2
Customer relationships	5-10	20.3	(1.4)	18.9
Technology	10	5.9	(0.4)	5.5
Other	3	1.8	(0.4)	1.4
		52.9	(14.5)	38.4
Indefinite lived: tradename		25.9		25.9
Total		$ 78.8	$ (14.5)	$ 64.3

Amortization of intangibles for the three month periods ended March 31, 2008 and 2007 totaled $1.6 million and $0.4 million, respectively. The Company estimates that the aggregate amortization expense will be $6.6 million in 2008, $6.1 million in 2009, $5.7 million in 2010, $5.6 million in 2011, $4.5 million in 2012 and $11.5 million thereafter.

8. DISCONTINUED OPERATIONS

The following table presents the operating results of the Company s discontinued operations for the three month periods ended March 31, 2008 and 2007:

E-One (Fire Rescue Segment)

	Three months ended March 31, 2008	March 31, 2007
Net sales	$ 53.2	$ 47.7
Costs and expenses	(59.4)	(51.6)

Loss before income taxes	(6.2)	(3.9)
Income tax benefit	2.5	1.3
Loss on discontinued operations	$ (3.7)	$ (2.6)

Die & Mold Operations (Tool Segment)

	Three months ended	
	March 31, 2008	March 31, 2007
Net sales	$ 31.3	$ 30.2
Costs and expenses	(29.8)	(28.0)
Income before income taxes	1.5	2.2
Income tax expense	(0.6)	(0.8)
Income on discontinued operations	$ 0.9	$ 1.4

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Refuse and Cutting Tool Operations (ESG and Tool Segments)

	Three months ended March 31, 2008	March 31, 2007
Net sales	$	$ 3.0
Costs and expenses		(2.8)