

FEDERAL SIGNAL CORP /DE/  
Form 10-Q  
November 03, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 1-6003

FEDERAL SIGNAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 36-1063330  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1415 West 22nd Street, 60523  
Oak Brook, Illinois  
(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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company  (Do not check if a smaller reporting company)

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

As of October 31, 2015, the number of shares outstanding of the registrant's common stock was 62,148,545.



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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q (“Form 10-Q”) is being filed by Federal Signal Corporation and its subsidiaries (referred to collectively as the “Company,” “we,” “our” or “us” herein, unless the context otherwise indicates) with the United States Securities and Exchange Commission (the “SEC”), and includes comments made by management that may contain words such as “may,” “will,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “project,” “estimate” and “objective” terminology, or the negative thereof, concerning the Company’s future financial performance, business strategy, plans, goals and objectives. These expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include information concerning the Company’s possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements to be materially different.

These risks and uncertainties, some of which are beyond the Company’s control, include the cyclical nature of the Company’s industrial, municipal, governmental and commercial markets; compliance with domestic and foreign laws and regulations; economic and political uncertainties and foreign currency rate fluctuations; restrictive debt covenants; availability of credit and third-party financing for customers; our ability to anticipate and meet customer demands for new products and product enhancements and the resulting products generating sufficient revenues to justify research and development expenses; our incurrence of restructuring and impairment charges as we continue to evaluate opportunities to restructure our business; highly competitive markets; increased product liability, warranty, recall claims, client service interruptions and other lawsuits and claims; technological advances by competitors; information technology security threats and cyber-attacks; infringement of, or an inability to protect, our intellectual property rights; disruptions in the supply of parts and components from suppliers and subcontractors; attraction and retention of key personnel; disruptions within our dealer network; work stoppages and other labor relations matters; increased pension funding requirements and expenses beyond our control; costs of compliance with environmental and safety regulations; our ability to use net operating loss and tax credit carryforwards to reduce future tax payments; charges related to goodwill; our ability to expand our business through successful future acquisitions; and unknown or unexpected contingencies in our business or in businesses acquired by us. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, Risk Factors, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 2, 2015. These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. The Company operates in a continually changing business environment and new factors emerge from time to time. The Company cannot predict such factors, nor can it assess the impact, if any, of such factors on its results of operations, financial condition or cash flow. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. The Company disclaims any responsibility to update any forward-looking statement provided in this Form 10-Q.

**ADDITIONAL INFORMATION**

The Company is subject to the reporting and information requirements of the Exchange Act and, as a result, is obligated to file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and information with the SEC, as well as amendments to those reports. The Company makes these filings available free of charge through our website at [www.federsignal.com](http://www.federsignal.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](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically. All materials that we file with, or furnish to, the SEC may also be read or copied at the SEC’s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the

SEC at 1-800-SEC-0330.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$205.8	\$219.3	\$658.2	\$654.1
Cost of sales	146.2	160.9	473.7	490.0
Gross profit	59.6	58.4	184.5	164.1
Selling, engineering, general and administrative expenses	33.4	33.4	103.9	102.5
Restructuring	0.3	0.1	0.7	—
Operating income	25.9	24.9	79.9	61.6
Interest expense	0.5	0.9	1.7	2.8
Other expense, net	0.3	0.3	1.3	0.6
Income before income taxes	25.1	23.7	76.9	58.2
Income tax expense	(8.7	) (8.5	) (27.3	) (18.4
Income from continuing operations	16.4	15.2	49.6	39.8
Gain from discontinued operations and disposal, net of income tax expense of \$1.6, \$0.0, \$1.6, and \$0.0, respectively	2.4	0.2	2.4	0.1
Net income	\$18.8	\$15.4	\$52.0	\$39.9
Basic earnings per share:				
Earnings from continuing operations	\$0.26	\$0.24	\$0.79	\$0.63
Gain from discontinued operations and disposal, net of tax	0.04	—	0.04	—
Net earnings per share	\$0.30	\$0.24	\$0.83	\$0.63
Diluted earnings per share:				
Earnings from continuing operations	\$0.26	\$0.24	\$0.78	\$0.62
Gain from discontinued operations and disposal, net of tax	0.04	—	0.04	—
Net earnings per share	\$0.30	\$0.24	\$0.82	\$0.62
Weighted average common shares outstanding:				
Basic	62.3	62.7	62.4	62.8
Diluted	63.3	63.8	63.4	63.8
Cash dividends declared per common share	\$0.06	\$0.03	\$0.18	\$0.06

See notes to condensed consolidated financial statements.

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$18.8	\$15.4	\$52.0	\$39.9
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(2.0	) (9.7	) (9.3	) (9.3
Change in unrecognized net actuarial losses related to pension benefit plans, net of income tax expense of \$0.8, \$0.7, \$2.1 and \$1.5, respectively	1.8	1.4	4.0	2.8
Unrealized net gain on derivatives, net of income tax	—	0.2	—	—
Total other comprehensive loss	(0.2	) (8.1	) (5.3	) (6.5
Comprehensive income	\$18.6	\$7.3	\$46.7	\$33.4
See notes to condensed consolidated financial statements.				

Table of ContentsFEDERAL SIGNAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015	December 31, 2014
(in millions, except per share data)		
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 66.2	\$ 30.4
Accounts receivable, net of allowances for doubtful accounts of \$2.1 and \$1.3, respectively	100.0	107.6
Inventories	124.7	121.0
Prepaid expenses	9.5	8.8
Deferred tax assets	7.5	18.8
Other current assets	4.3	2.8
Current assets of discontinued operations	0.6	1.1
Total current assets	312.8	290.5
Properties and equipment, net of accumulated depreciation of \$131.8 and \$124.6, respectively	68.1	69.5
Goodwill	261.6	266.3
Deferred tax assets	15.3	25.3
Deferred charges and other assets	3.6	4.0
Long-term assets of discontinued operations	1.4	3.1
Total assets	\$ 662.8	\$ 658.7
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term borrowings and capital lease obligations	\$ 6.5	\$ 6.2
Accounts payable	49.1	50.7
Customer deposits	11.9	12.1
Accrued liabilities:		
Compensation and withholding taxes	23.5	28.2
Other current liabilities	35.8	40.2
Current liabilities of discontinued operations	2.6	1.7
Total current liabilities	129.4	139.1
Long-term borrowings and capital lease obligations	40.5	44.0
Long-term pension and other postretirement benefit liabilities	55.1	63.5
Deferred gain	13.1	14.6
Other long-term liabilities	22.0	20.9
Long-term liabilities of discontinued operations	3.5	5.0
Total liabilities	263.6	287.1
Stockholders' equity:		
Common stock, \$1 par value per share, 90.0 shares authorized, 64.8 and 64.2 shares issued, respectively	64.8	64.2
Capital in excess of par value	192.4	187.0
Retained earnings	267.7	227.0
Treasury stock, at cost, 2.6 and 1.7 shares, respectively	(40.9	) (27.1
Accumulated other comprehensive loss	(84.8	) (79.5
Total stockholders' equity	399.2	371.6
Total liabilities and stockholders' equity	\$ 662.8	\$ 658.7



See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in millions)	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$52.0	\$39.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain from discontinued operations and disposal	(2.4	) (0.1
Depreciation and amortization	11.4	11.1
Deferred financing costs	0.3	0.3
Deferred gain	(1.5	) (1.5
Stock-based compensation expense	4.8	4.0
Excess tax benefit from stock-based compensation	(0.5	) —
Pension expense, net of funding	(3.3	) (5.5
Provision for doubtful accounts	1.3	0.1
Deferred income taxes	20.3	14.7
Changes in operating assets and liabilities, net of effects of discontinued operations	(14.0	) (18.4
Net cash provided by continuing operating activities	68.4	44.6
Net cash used for discontinued operating activities	(0.5	) (0.3
Net cash provided by operating activities	67.9	44.3
Investing activities:		
Purchases of properties and equipment	(8.7	) (13.3
Proceeds from sales of properties and equipment	0.1	0.3
Proceeds from sale of FSTech Group	4.0	7.0
Net cash used for continuing investing activities	(4.6	) (6.0
Financing activities:		
Decrease in revolving lines of credit, net	—	(20.0
Payments on long-term borrowings	(2.9	) (3.3
Purchases of treasury stock	(10.6	) (6.7
Redemptions of common stock to satisfy withholding taxes related to stock-based compensation	(3.2	) —
Cash dividends paid to stockholders	(11.3	) (3.8
Proceeds from stock-based compensation activity	0.9	1.8
Excess tax benefit from stock-based compensation	0.5	—
Other, net	(0.4	) (0.6
Net cash used for continuing financing activities	(27.0	) (32.6
Effects of foreign exchange rate changes on cash and cash equivalents	(0.5	) (0.4
Increase in cash and cash equivalents	35.8	5.3
Cash and cash equivalents at beginning of period	30.4	23.8
Cash and cash equivalents at end of period	\$66.2	\$29.1
See notes to condensed consolidated financial statements.		

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2015	\$64.2	\$187.0	\$227.0	\$(27.1 )	\$ (79.5 )	\$371.6
Net income			52.0			52.0
Total other comprehensive loss					(5.3 )	(5.3 )
Cash dividends declared			(11.3 )			(11.3 )
Stock-based payments:						
Stock-based compensation		4.3				4.3
Stock option exercises and other	0.1	1.1		(0.5 )		0.7
Performance share unit transactions	0.5	(0.5 )		(2.7 )		(2.7 )
Excess tax benefit from stock-based compensation		0.5				0.5
Stock repurchase program				(10.6 )		(10.6 )
Balance at September 30, 2015	\$64.8	\$192.4	\$267.7	\$(40.9 )	\$ (84.8 )	\$399.2
(in millions)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	\$63.8	\$177.0	\$168.9	\$(16.8 )	\$ (41.9 )	\$351.0
Net income			39.9			39.9
Total other comprehensive loss					(6.5 )	(6.5 )
Cash dividends declared			(3.8 )			(3.8 )
Stock-based payments:						
Stock-based compensation		3.4				3.4
Stock option exercises and other	0.3	1.7				2.0
Stock repurchase program				\$(6.7 )		\$(6.7 )
Balance at September 30, 2014	\$64.1	\$182.1	\$205.0	\$(23.5 )	\$ (48.4 )	\$379.3

See notes to condensed consolidated financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of the Business

Federal Signal Corporation was founded in 1901 and was reincorporated as a Delaware corporation in 1969. References herein to the “Company,” “we,” “our” or “us” refer collectively to Federal Signal Corporation and its subsidiaries. Products manufactured and services rendered by the Company are divided into three major operating segments: Environmental Solutions Group, Safety and Security Systems Group and Fire Rescue Group. The individual operating businesses are organized under each segment because they share certain characteristics, including technology, marketing, distribution and product application, which create long-term synergies. The Company’s reportable segments are consistent with its operating segments. These segments are discussed in Note 10 – Segment Information.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements represent the consolidation of Federal Signal Corporation and its subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to ensure the information presented is not misleading. These condensed consolidated financial statements have been prepared in accordance with the Company’s accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, and should be read in conjunction with those consolidated financial statements and the notes thereto.

These statements include all normal and recurring adjustments that we considered necessary to present a fair statement of our results of operations, financial condition and cash flow. Intercompany balances and transactions have been eliminated in consolidation. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. While we label our quarterly information using a calendar convention whereby our first, second and third quarters are labeled as ending on March 31, June 30 and September 30, respectively, it is our longstanding practice to establish interim quarterly closing dates based on a 13-week period ending on a Saturday, with our fiscal year ending on December 31. The effects of this practice are not material and exist only within a reporting year.

Recent Accounting Pronouncements and Accounting Changes

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The FASB decided to allow either a “full retrospective” adoption, in which the standard is applied to all periods presented in the financial statements, or a “modified retrospective” adoption, in which

the guidance is applied retrospectively only to the most current period presented in the financial statements, with the cumulative effect of initially applying the new standard being recognized as an adjustment to the opening balance of retained earnings. As originally proposed, this guidance was effective for annual

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

reporting periods beginning on or after December 15, 2016, including interim periods within that reporting period, and early adoption was not permitted. In July 2015, the FASB voted to approve a one-year deferral of the effective date, to annual reporting periods beginning on or after December 15, 2017, including interim periods within that reporting period. The final ASU 2015-14 also allows companies to adopt the guidance early, but no earlier than the original effective date. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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

In July 2015, the FASB issued ASU No. 2015-15, Interest – Imputation of Interest (Subtopic 855-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which presents the SEC staff’s opinion, in response to ASU No. 2015-03, that debt issuance costs associated with line-of-credit arrangements may be deferred, presented as an asset, and subsequently amortized ratably over the respective term, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The effective date of this guidance, and the expected impact upon adoption, is consistent with that discussed above with respect to ASU No. 2015-03.

## Use of Estimates

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

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

## NOTE 2 – INVENTORIES

The following table summarizes the components of Inventories:

(in millions)	September 30, 2015	December 31, 2014
Raw materials	\$ 46.8	\$ 53.1
Work in progress	26.1	23.7
Finished goods	51.8	44.2
Total inventories	\$ 124.7	\$ 121.0

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

## NOTE 3 – DEBT

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

(in millions)	September 30, 2015	December 31, 2014
Senior Secured Credit Facility:		
Revolving credit facility	\$ —	\$—
Term loan	46.3	49.2
Capital lease obligations	0.7	1.0
Total long-term borrowings and capital lease obligations, including current portion	47.0	50.2
Less: Current maturities	6.1	5.8
Less: Current capital lease obligations	0.4	0.4
Total long-term borrowings and capital lease obligations, net	\$ 40.5	\$44.0

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

(in millions)	September 30, 2015		December 31, 2014	
	Notional	Fair	Notional	Fair
	Amount	Value	Amount	Value
Long-term borrowings <sup>(a)</sup>	\$47.0	\$47.0	\$50.2	\$50.2

<sup>(a)</sup> Long-term borrowings includes current portions of long-term debt and current portions of capital lease obligations of \$6.5 million and \$6.2 million as of September 30, 2015 and December 31, 2014, respectively.

In March 2013, the Company executed a \$225.0 million senior secured credit facility (the “Senior Secured Credit Facility”) comprised of a five-year fully funded term loan of \$75.0 million and a five-year \$150.0 million revolving credit facility. As of September 30, 2015, there was no cash drawn and \$23.4 million of undrawn letters of credit under the \$150.0 million revolving credit facility portion of the Senior Secured Credit Facility, with \$126.6 million of net availability for borrowings.

For the nine months ended September 30, 2015, there were no gross borrowings or gross payments under the Company’s domestic revolving credit facility. For the nine months ended September 30, 2014, gross borrowings and gross payments under the Company’s domestic revolving credit facility were \$6.5 million and \$26.5 million, respectively.

As of September 30, 2015, there were no borrowings against the Company’s non-U.S. lines of credit which provide for borrowings of up to \$10.2 million.

The Senior Secured Credit Facility requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio and maximum leverage ratio. The financial covenants are measured at each fiscal quarter-end. Restricted payments, including dividends, are permitted only if the pro-forma leverage ratio after giving effect to such payment is less than 3.25x, pro-forma compliance after giving effect to such payment is maintained for all other financial covenants and there are no existing defaults under the Senior Secured Credit Facility. The Company was in compliance with all of its debt covenants as of September 30, 2015.

## NOTE 4 – INCOME TAXES

The Company recognized income tax expense of \$8.7 million and \$8.5 million for the three months ended September 30, 2015 and 2014, respectively. The increase in tax expense in the current-year quarter is largely due to higher pre-tax income levels. The effective tax rate for the three months ended September 30, 2015 was 34.7%, compared to 35.9% in the prior-year quarter.

For the nine months ended September 30, 2015 and 2014, the Company recognized income tax expense of \$27.3 million and \$18.4 million, respectively. The effective tax rate was 35.5% and 31.6% for the nine months ended September 30, 2015 and 2014, respectively. The increase in tax expense and the effective tax rate in the nine months ended September 30, 2015 was primarily due to higher pre-tax income levels and the effects of a \$1.5 million tax benefit recognized in the prior-year period



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

associated with a reduction in unrecognized tax benefits, primarily related to the completion of an Internal Revenue Service (“IRS”) audit.

## NOTE 5 – PENSIONS

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

	U.S. Benefit Plan				Non-U.S. Benefit Plans			
	Three Months		Nine Months		Three Months		Nine Months	
	Ended		Ended		Ended		Ended	
	September 30,		September 30,		September 30,		September 30,	
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014
Service cost	\$—	\$—	—	—	\$—	\$0.1	\$0.2	\$0.3
Interest cost	1.9	2.0	5.7	5.9	0.6	0.7	1.6	2.0
Amortization of actuarial loss	1.7	1.3	5.1	3.8	0.2	0.1	0.6	0.3
Expected return on plan assets	(2.6 )	(2.3 )	(7.7 )	(6.8 )	(0.6 )	(0.9 )	(2.0 )	(2.7 )
Net postretirement pension expense (benefit)	\$1.0	\$1.0	3.1	2.9	\$0.2	\$—	\$0.4	\$(0.1 )

During the nine months ended September 30, 2015 and 2014, the Company contributed \$5.5 million and \$7.3 million to its U.S. defined benefit plan, respectively, and \$1.2 million and \$1.0 million to its non-U.S. defined benefit plans, respectively.

For the year ended December 31, 2015, the Company expects to contribute up to \$7.0 million to the U.S. benefit plan and up to \$1.2 million to the non-U.S. benefit plans.

During the nine months ended September 30, 2015, the Company repurchased all of the remaining shares of its common stock from its U.S. benefit plan for a total cost of \$3.6 million. The repurchases were made under the stock repurchase program discussed further in Note 9 – Stockholders’ Equity. At December 31, 2014, total assets of the U.S. benefit plan included 0.2 million of the Company’s common stock shares that were valued at \$3.6 million. The value of the shares was determined using quoted market prices (Level 1 input).

## NOTE 6 – COMMITMENTS AND CONTINGENCIES

## Guarantees

The Company provides indemnifications and other guarantees in the ordinary course of business, the terms of which range in duration and often are not explicitly defined. Specifically, the Company is occasionally required to provide letters of credit and bid and performance bonds to various customers, principally to act as security for retention levels related to casualty insurance policies and to guarantee the performance of subsidiaries that engage in export and domestic transactions. At September 30, 2015, the Company had outstanding performance and financial standby letters of credit, as well as outstanding bid and performance bonds, in the aggregate amount of \$34.7 million. If any such letters of credit or bonds are called, the Company would be obligated to reimburse the issuer of the letter of credit or bond. The Company believes the likelihood of any currently outstanding letter of credit or bond being called is remote.

The Company issues product performance warranties to customers with the sale of its products. The specific terms and conditions of these warranties vary depending upon the product sold and country in which the Company does business, with warranty periods generally ranging from one to five years. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time the sale of the related product is recognized. Factors that affect the Company’s warranty liability include (i) the number of units under warranty, (ii) historical and anticipated rates of warranty claims and (iii) costs per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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

(in millions)	2015	2014
Balance at January 1	\$9.1	\$8.4
Provisions to expense	5.1	5.2
Payments	(5.6	) (5.5
Balance at September 30	\$8.6	\$8.1

**Environmental Liabilities**

Reserves of \$0.9 million and \$1.3 million related to the environmental remediation of the Pearland, Texas facility are included in liabilities of discontinued operations on the Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, respectively. The facility was previously used by the Company's discontinued Pauluhn business and manufactured marine, offshore and industrial lighting products. The Company sold the facility in May 2012 and while the Company has not finalized its plans, it is probable that the site will require remediation. The recorded reserves are based on an undiscounted estimate of the range of costs to remediate the site, depending upon the remediation approach and other factors. The Company's estimate may change in the near-term as more information becomes available; however, the costs are not expected to have a material adverse effect on the Company's results of operations, financial position or cash flow.

**Legal Proceedings**

The Company is subject to various claims, including pending and possible legal actions for product liability and other damages, and other matters arising in the ordinary course of the Company's business. On a quarterly basis, the Company reviews uninsured material legal claims against the Company and accrues for the costs of such claims as appropriate in the exercise of management's best judgment and experience. However, due to a lack of factual information available to the Company about a claim, or the procedural stage of a claim, it may not be possible for the Company to reasonably assess either the probability of a favorable or unfavorable outcome of the claim or to reasonably estimate the amount of loss should there be an unfavorable outcome. Therefore, for many claims, the Company cannot reasonably estimate a range of loss.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have a material adverse effect on the Company's results of operations or financial condition. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company's results of operations, financial condition or cash flow.

**Hearing Loss Litigation**

The Company has been sued for monetary damages by firefighters who claim that exposure to the Company's sirens has impaired their hearing and that the sirens are therefore defective. There were 33 cases filed during the period of 1999 through 2004 involving a total of 2,443 plaintiffs in the Circuit Court of Cook County, Illinois. These cases involved more than 1,800 firefighter plaintiffs from locations outside of Chicago. In 2009, six additional cases were filed in Cook County involving 299 Pennsylvania firefighter plaintiffs. During 2013, another case was filed in Cook County involving 74 Pennsylvania firefighter plaintiffs.

The trial of the first 27 of these plaintiffs' claims occurred in 2008, whereby a Cook County jury returned a unanimous verdict in favor of the Company.

An additional 40 Chicago firefighter plaintiffs were selected for trial in 2009. Plaintiffs' counsel later moved to reduce the number of plaintiffs from 40 to nine. The trial for these nine plaintiffs concluded with a verdict against the Company and for the plaintiffs in varying amounts totaling \$0.4 million. The Company appealed this verdict. On September 13, 2012, the Illinois Appellate Court rejected this appeal. The Company thereafter filed a petition for rehearing with the Illinois Appellate Court, which was denied on February 7, 2013. The Company sought further review by filing a petition for leave to appeal with the Illinois Supreme Court on March 14, 2013. On May 29, 2013, the Illinois Supreme Court issued a summary order declining to accept review of this case. On July 1, 2013, the

Company satisfied the judgments entered for these plaintiffs, which has resulted in final dismissal of these cases. A third consolidated trial involving eight Chicago firefighter plaintiffs occurred during November 2011. The jury returned a unanimous verdict in favor of the Company at the conclusion of this trial.

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Following this trial, on March 12, 2012 the trial court entered an order certifying a class of the remaining Chicago Fire Department firefighter plaintiffs for trial on the sole issue of whether the Company's sirens were defective and unreasonably dangerous. The Company petitioned the Illinois Appellate Court for interlocutory appeal of this ruling. On May 17, 2012, the Illinois Appellate Court accepted the Company's petition. On June 8, 2012, plaintiffs moved to dismiss the appeal, agreeing with the Company that the trial court had erred in certifying a class action trial in this matter. Pursuant to plaintiffs' motion, the Illinois Appellate Court reversed the trial court's certification order. Thereafter, the trial court scheduled a fourth consolidated trial involving three firefighter plaintiffs, which began in December 2012. Prior to the start of this trial, the claims of two of the three firefighter plaintiffs were dismissed. On December 17, 2012, the jury entered a complete defense verdict for the Company.

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

On June 25, 2014, a unanimous three-judge panel of the First District Illinois Appellate Court issued its opinion reversing the class certification order of the trial court. Specifically, the Appellate Court determined that the trial court's ruling failed to satisfy the class-action requirements that the common issues of the firefighters' claims predominate over the individual issues and that there is an adequate representative for the class. During a status hearing on October 8, 2014, plaintiffs represented to the Court that they would again seek to certify a class of firefighters on the issue of whether the Company's sirens were defective and unreasonably dangerous. On January 12, 2015, plaintiffs filed motions to amend their complaints to add class action allegations with respect to Chicago firefighter plaintiffs as well as the approximately 1,800 firefighter plaintiffs from locations outside of Chicago. On March 11, 2015, the trial court granted plaintiffs' motions to amend their complaints. Plaintiffs have indicated that they will now file motions to certify classes in these cases. On April 24, 2015, the cases were transferred to Cook County chancery court, which will decide all class certification issues. The Company intends to continue its objections to any attempt at certification. The Company also has filed motions to dismiss cases involving firefighters located outside of Cook County based on improper venue. Plaintiffs have requested discovery from the Company related to these venue motions. The Court has scheduled a further status hearing regarding venue matters for December 2, 2015.

The Company has also been sued on this issue outside of the Cook County, Illinois venue. Many of these cases have involved lawsuits filed by a single attorney in the Court of Common Pleas, Philadelphia County, Pennsylvania. During 2007 and through 2009, this attorney filed a total of 71 lawsuits, involving 71 plaintiffs in this jurisdiction. Three 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 to obtain dismissals.

Three trials occurred in Philadelphia involving these cases filed in 2007 through 2009. 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, also 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 represented (the "Claimants") and who had asserted product claims against the Company (the

“Claims”). Three hundred eight of the Claimants had lawsuits pending against the Company in Cook County, Illinois. The Settlement Agreement, as amended, provided that the Company pay a total amount of \$3.8 million (the “Settlement Payment”) 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

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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 by the Claimants and denies that its products caused any injuries to the Claimants. Nonetheless, the Company entered into the Settlement Agreement for the purpose of minimizing its expenses, including legal fees, and avoiding the inconvenience, uncertainty and distraction of the claims and lawsuits.

During April through October 2012, 20 new cases were filed in the Court of Common Pleas, Philadelphia County, Pennsylvania. These cases were filed on behalf of 20 Philadelphia firefighters and involve various defendants in addition to the Company. Five of these cases were subsequently dismissed. The first trial involving these new Philadelphia cases occurred during December 2014 and involved three firefighter plaintiffs. The jury returned a verdict in favor of the Company. Following this trial, all of the parties agreed to settle cases involving seven firefighter plaintiffs set for trial during January 2015 for nominal amounts per plaintiff. In January 2015, plaintiffs' attorneys filed two new complaints in the Court of Common Pleas, Philadelphia, Pennsylvania on behalf of approximately 70 additional firefighter plaintiffs. The vast majority of the firefighters identified in these complaints are located outside of Pennsylvania. One of the complaints in these cases, which involves 11 firefighter plaintiffs from the District of Columbia, has been removed to federal court in the Eastern District of Pennsylvania. During August 2015, two new cases were filed in the Court of Common Pleas, Philadelphia County, Pennsylvania. These cases involve a total of 42 firefighters; most of these firefighters worked at fire departments in New Jersey and New York. Plaintiffs have named various other defendants in addition to the Company.

During April through July 2013, additional cases were filed in Allegheny County, Pennsylvania. These cases involve 247 plaintiff firefighters from Pittsburgh and various defendants, including the Company. After the Company filed pretrial motions, the Court dismissed claims of 41 Pittsburgh firefighter plaintiffs. An initial trial involving eight Pittsburgh firefighters has been scheduled for January 2016. During March 2014, an action also was brought in the Court of Common Pleas of Erie County, Pennsylvania on behalf of 61 firefighters. This case likewise involves various defendants in addition to the Company. After the Company filed pretrial motions, 32 Erie County firefighter plaintiffs voluntarily dismissed their claims.

On September 17, 2014, 20 lawsuits, involving a total of 193 Buffalo Fire Department firefighters, were filed in the Supreme Court of the State of New York, Erie County. Several product manufacturers, including the Company, have been named as defendants in these cases. All of the cases filed in Erie County, New York have been removed to federal court in the Western District of New York. During February 2015, a lawsuit involving one New York City firefighter plaintiff was filed in the Supreme Court of the State of New York, New York County. Plaintiff named the Company as well as several other parties as defendants. That case has been transferred to federal court in the Northern District of New York. The Company also is aware that a lawsuit involving eight New York City firefighters was filed in New York County, New York, on April 24, 2015 and that a lawsuit involving 34 New Jersey firefighters was filed in Union County, New Jersey state court on May 4, 2015. The Company has not yet been served in those two cases. From 2007 through 2009, firefighters also brought hearing loss claims against the Company in New Jersey, Missouri, Maryland and Kings County, New York. All of those cases, however, were dismissed prior to trial, including four cases in the Supreme Court of Kings County, New York that were dismissed upon the Company's motion in 2008. On

appeal, the New York 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. The Company's ongoing negotiations with its insurer, CNA, over insurance coverage on these claims have resulted in reimbursements of a portion of the Company's defense costs. These reimbursements are recorded as a reduction of corporate operating expenses. For the nine months ended September 30, 2015 and 2014, the Company recorded \$0.2 million and \$0.2 million of reimbursements from CNA related to legal costs, respectively.

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(Unaudited)

Latvian Commercial Dispute

On June 12, 2014, a Latvian trial court issued a summary ruling against the Company's Bronto Skylift Oy Ab ("Bronto") subsidiary in a lawsuit relating to a commercial dispute. The dispute involves a transaction for the 2008 sale of three Bronto units that were purchased by a financing company for lease to a Latvian fire department. The lessor and the Latvian fire department sought to rescind the contract after delivery, despite the fact that an independent third party, selected by the lessor, had certified that the vehicles satisfied the terms of the contract. The adverse judgment requires Bronto to refund the purchase price and pay interest and attorneys' fees. The trial court denied the lessor's claim against Bronto for alleged damages relating to lost lease income.

The Company continues to believe that the claims against Bronto are invalid and that Bronto fully satisfied the terms of the subject contract. Accordingly, on July 30, 2014, the Company filed an appeal with the Civil Chamber of the Supreme Court of Latvia seeking a reversal of the trial court's ruling. The appeal hearing with the Supreme Court is currently scheduled for April 2016.

As of September 30, 2015, the Company has not accrued any liability within its consolidated financial statements for this lawsuit. In evaluating whether a charge to record a reserve was necessary, the Company analyzed all of the available information, including the legal reasoning applied by the judge of the trial court in reaching its decision. Based on the Company's analysis, and consultations with external counsel, the Company has assessed the likelihood of a successful appeal to be more likely than not and therefore does not believe that a probable loss has been incurred. In the event that the Company's appeal of the initial judgment is unsuccessful or not fully successful, the Company would expect to record a charge that could range from zero to approximately \$5 million. This range includes the amount of the adverse judgment, as well as estimated interest that will continue to accrue throughout the appeal process.

NOTE 7 – EARNINGS PER SHARE

The Company computes earnings per share ("EPS") in accordance with ASC 260, Earnings per Share, which requires that non-vested restricted stock containing non-forfeitable dividend rights should be treated as participating securities pursuant to the two-class method. Under the two-class method, net income is reduced by the amount of dividends declared in the period for common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. The amounts of distributed and undistributed earnings allocated to participating securities for the three and nine months ended September 30, 2015 and 2014 were insignificant and did not materially impact the calculation of basic or diluted EPS.

Basic EPS is computed by dividing income or loss available to common stockholders by the weighted average number of shares of common stock and non-vested restricted stock awards outstanding for the period.

Diluted EPS is computed using the weighted average number of shares of common stock and non-vested restricted stock awards outstanding for the year plus the effect of dilutive potential common shares outstanding during the period. The dilutive effect of common stock equivalents is determined using the more dilutive of the two-class method or alternative methods. The Company uses the treasury stock method to determine the potentially dilutive impact of our employee stock options and restricted stock units, and the contingently issuable method for our performance-based restricted stock unit awards.

For the three and nine months ended September 30, 2015 and 2014, options to purchase 0.8 million and 0.5 million shares of the Company's common stock, respectively, had an anti-dilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

The following table reconciles Net income to basic and diluted EPS:

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Income from continuing operations	\$16.4	\$15.2	\$49.6	\$39.8
Gain from discontinued operations and disposal, net of tax	2.4	0.2	2.4	0.1
Net income	\$18.8	\$15.4	\$52.0	\$39.9
Weighted average shares outstanding – Basic	62.3	62.7	62.4	62.8
Dilutive effect of common stock equivalents	1.0	1.1	1.0	1.0
Weighted average shares outstanding – Diluted	\$63.3	\$63.8	\$63.4	\$63.8
Basic earnings per share:				
Earnings from continuing operations	\$0.26	\$0.24	\$0.79	\$0.63
Gain from discontinued operations and disposal, net of tax	0.04	—	0.04	—
Net earnings per share	\$0.30	\$0.24	\$0.83	\$0.63
Diluted earnings per share:				
Earnings from continuing operations	\$0.26	\$0.24	\$0.78	\$0.62
Gain from discontinued operations and disposal, net of tax	0.04	—	0.04	—
Net earnings per share	\$0.30	\$0.24	\$0.82	\$0.62

## NOTE 8 – STOCK-BASED COMPENSATION

On December 31, 2014, performance share units (“PSUs”) granted in 2012 became fully vested. The EPS threshold associated with these awards was achieved at the maximum level, and 200% of the target shares were earned. In addition, during the nine months ended September 30, 2015, various restricted stock awards granted in 2012 became fully vested. These vested performance share units and restricted stock awards were net share settled. In connection with the issuance of the shares underlying the PSUs during the nine months ended September 30, 2015, and with the vesting of restricted stock, the Company transferred 0.2 million shares into Treasury stock, based upon the Company’s closing stock price on the vesting date, to satisfy the employees’ minimum statutory withholding obligation for applicable income and other employment taxes. The Company then remitted the equivalent cash value to the appropriate taxing authorities.

Total payments for the employees’ tax obligations to the relevant taxing authorities were \$3.2 million for the nine months ended September 30, 2015, and are reflected as a financing activity within the Condensed Consolidated Statements of Cash Flows.

## NOTE 9 – STOCKHOLDERS’ EQUITY

## Dividends

On February 20, 2015, the Company’s Board of Directors (the “Board”) declared a quarterly cash dividend of \$0.06 per common share. The dividend totaled \$3.8 million and was distributed on March 27, 2015 to holders of record at the close of business on March 9, 2015.

On April 28, 2015, the Board declared a quarterly cash dividend of \$0.06 per common share. The dividend totaled \$3.7 million and was distributed on June 9, 2015 to holders of record at the close of business on May 19, 2015.

On July 16, 2015, the Board declared a quarterly cash dividend of \$0.06 per common share. The dividend totaled \$3.8 million and was distributed on August 27, 2015 to holders of record at the close of business on August 6, 2015.

On October 27, 2015, the Board declared a quarterly cash dividend of \$0.07 per common share payable on December 8, 2015 to holders of record at the close of business on November 17, 2015.

## Stock Repurchase Program

In April 2014, the Board authorized a stock repurchase program (the “April 2014 program”) of up to \$15.0 million of the Company’s common stock. The April 2014 program was intended primarily to facilitate a reduction in the investment in



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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

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Company stock within the Company's U.S. defined benefit pension plan portfolio and to reduce dilution resulting from issuances of stock under the Company's employee equity incentive programs.

In November 2014, the Board authorized an additional stock repurchase program (the "November 2014 program") of up to \$75.0 million of the Company's common stock. The November 2014 program is intended primarily to facilitate opportunistic purchases of Company stock as a means to provide cash returns to stockholders, enhance stockholder returns and manage the Company's capital structure.

During the three and nine months ended September 30, 2015, the Company repurchased 394,430 and 724,792 shares for a total of \$5.6 million and \$10.6 million, respectively, under the authorized stock repurchase programs. During the second quarter of 2015, cumulative stock repurchases under the April 2014 program reached the maximum authorized level of \$15.0 million. No additional stock repurchases will be made under that program.

Under its stock repurchase programs, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock in the open market or through privately negotiated transactions. Stock repurchases by the Company are subject to market conditions and other factors and may be commenced, suspended or discontinued at any time.

## Accumulated Other Comprehensive Loss

The following tables summarize the changes in each component of Accumulated other comprehensive loss, net of tax:

(in millions) <sup>(a)</sup>	Actuarial Losses <sup>(b)</sup>	Foreign Currency Translation	Unrealized Gain on Derivatives	Total
Balance at July 1, 2015	\$(77.6 )	\$(7.1 )	\$0.1	\$(84.6 )
Other comprehensive income (loss) before reclassifications	0.6	(2.0 )	—	(1.4 )
Amounts reclassified from accumulated other comprehensive loss	1.2	—	—	1.2
Net current-period other comprehensive income (loss)	1.8	(2.0 )	—	(0.2 )
Balance at September 30, 2015	\$(75.8 )	\$(9.1 )	\$0.1	\$(84.8 )
Balance at July 1, 2014	\$(56.7 )	\$16.4	\$—	\$(40.3 )
Other comprehensive income (loss) before reclassifications	0.6	(9.6 )	0.2	(8.8 )
Amounts reclassified from accumulated other comprehensive loss	0.8	(0.1 )	—	0.7
Net current-period other comprehensive income (loss)	1.4	(9.7 )	0.2	(8.1 )
Balance at September 30, 2014	\$(55.3 )	\$6.7	\$0.2	\$(48.4 )

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

(in millions) <sup>(a)</sup>	Actuarial Losses <sup>(b)</sup>	Foreign Currency Translation	Unrealized Gain on Derivatives	Total
Balance at January 1, 2015	\$(79.8 )	\$0.2	\$0.1	\$(79.5 )
Other comprehensive income (loss) before reclassifications	0.4	(9.3 )	—	(8.9 )
Amounts reclassified from accumulated other comprehensive loss	3.6	—	—	3.6
Net current-period other comprehensive income (loss)	4.0	(9.3 )	—	(5.3 )
Balance at September 30, 2015	\$(75.8 )	\$(9.1 )	\$0.1	\$(84.8 )
Balance at January 1, 2014	\$(58.1 )	\$16.0	\$0.2	\$(41.9 )
Other comprehensive income (loss) before reclassifications	0.3	(9.4 )	—	(9.1 )
Amounts reclassified from accumulated other comprehensive loss	2.5	0.1	—	2.6
Net current-period other comprehensive income (loss)	2.8	(9.3 )	—	(6.5 )
Balance at September 30, 2014	\$(55.3 )	\$6.7	\$0.2	\$(48.4 )

(a) Amounts in parenthesis indicate debits.

Actuarial losses increased significantly during the fourth quarter of 2014 based on an updated actuarial valuation of the Company's defined-benefit pension obligations. Largely as a result of a lower discount rate and improved mortality assumptions, the Company's long-term pension liabilities increased, which contributed to a corresponding increase in actuarial losses.

The following table summarizes the amount of actuarial losses reclassified from Accumulated other comprehensive loss, net of tax, in the three months ended September 30, 2015 and 2014 and the affected line item in the Condensed Consolidated Statements of Operations:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in Condensed Consolidated Statements of Operations
	2015	2014	
	(in millions) <sup>(a)</sup>		
Amortization of actuarial losses of defined benefit pension plans	\$(1.9 )	\$(1.4 )	(b)
Total before tax	(1.9 )	(1.4 )	
Income tax benefit	0.7	0.6	Income tax expense
Total reclassifications for the period, net of tax	\$(1.2 )	\$(0.8 )	

The following table summarizes the amount of actuarial losses reclassified from Accumulated other comprehensive loss, net of tax, in the nine months ended September 30, 2015 and 2014 and the affected line item in the Condensed Consolidated Statements of Operations:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in Condensed Consolidated Statements of Operations
	2015	2014	
	(in millions) <sup>(a)</sup>		
Amortization of actuarial losses of defined benefit pension plans	\$(5.7 )	\$(4.1 )	(b)
Total before tax	(5.7 )	(4.1 )	
Income tax benefit	2.1	1.6	Income tax expense
Total reclassifications for the period, net of tax	\$(3.6 )	\$(2.5 )	

(a) Amount in parenthesis indicate debits to profit/loss.

The actuarial loss components of Accumulated other comprehensive loss are included in the computation of net  
(b) periodic pension cost for the three and nine months ended September 30, 2015 and 2014, as disclosed in Note 5 –  
Pensions.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

NOTE 10 – SEGMENT INFORMATION

The Company has three operating segments as defined under ASC Topic 280, Segment Reporting. The Company's reportable segments are consistent with its operating segments. Business units are organized under each segment because they share certain characteristics, such as technology, marketing, production, distribution and product application, which create long-term synergies. The principal activities of the Company's operating segments are as follows:

**Environmental Solutions** — Our Environmental Solutions Group is a leading manufacturer and supplier of a full range of street sweeper vehicles, sewer cleaner and vacuum loader trucks, hydro-excavation trucks and high-performance waterblasting equipment. Products are sold to both municipal and industrial customers under the Elgin®, Vactor®, Guzzler® and Jetstream™ brand names. The Group manufactures vehicles and equipment in the U.S.

**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 and industrial communications, as well as command and municipal networked security. Specific products include vehicle lightbars and sirens, public warning sirens, general alarm systems, public address systems and public safety software. Products are sold under the Federal Signal™, Federal Signal VAMA™ and Victor™ brand names. The Group operates manufacturing facilities in the U.S., Europe and South Africa.

**Fire Rescue** — Our Fire Rescue Group is a leading manufacturer and supplier of sophisticated, vehicle-mounted, aerial platforms for fire fighting, rescue and industrial applications. End customers include fire departments, industrial fire services, electric utilities and maintenance rental companies for applications such as fire fighting and rescue, transmission line maintenance and installation and maintenance of wind turbines. In addition to equipment sales, the Group sells parts, service and training as part of a complete offering to its customers. The Group manufactures in Finland and sells globally under the Bronto Skylift® brand name.

Corporate contains those items that are not included in our operating segments.

Net sales by operating segment reflect sales of products and services to external customers, as reported in the Company's Condensed Consolidated Statements of Operations. Intersegment sales are insignificant. 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, deferred tax assets and fixed assets. The accounting policies of each operating segment are the same as those described in Note 1 – Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results for the interim periods are not necessarily indicative of results for a full year.

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## FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

(Unaudited)

The following tables summarize the Company's continuing operations by segment, including Net sales, Operating income (loss), and Total assets:

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales:				
Environmental Solutions	\$123.0	\$134.1	\$409.8	\$394.0
Safety and Security Systems	56.7	59.7	171.8	176.0
Fire Rescue	26.1	25.5	76.6	84.1
Total net sales	\$205.8	\$219.3	\$658.2	\$654.1
Operating income (loss):				
Environmental Solutions	\$21.5	\$21.5	\$74.6	\$59.8
Safety and Security Systems	9.3	9.4	23.2	21.2
Fire Rescue	0.7	(0.2)	1.0	(1.3)
Corporate and eliminations	(5.6)	(5.8)	(18.9)	(18.1)
Total operating income	25.9	24.9	79.9	61.6
Interest expense	0.5	0.9	1.7	2.8
Other expense, net	0.3	0.3	1.3	0.6
Income before income taxes	\$25.1	\$23.7	\$76.9	\$58.2
(in millions)			As of	As of
			September	December
			30, 2015	31, 2014
Total assets:				
Environmental Solutions			\$264.6	\$254.2
Safety and Security Systems			206.9	208.3
Fire Rescue			110.7	124.0
Corporate and eliminations			78.6	68.0
Total assets of continuing operations			660.8	654.5
Total assets of discontinued operations			2.0	4.2
Total assets			\$662.8	\$658.7

## NOTE 11 – DISCONTINUED OPERATIONS

There were no new discontinued operations in 2014 or in the nine months ended September 30, 2015.

The Company retains certain liabilities for operations discontinued in prior years, primarily for environmental remediation and product liability. Included in liabilities of discontinued operations at September 30, 2015 and December 31, 2014 was \$0.9 million and \$1.3 million, respectively, related to environmental remediation at the Pearland, Texas facility, previously used by the Company's discontinued Pauluhn business, and \$3.0 million and \$3.0 million, respectively, relating to estimated product liability obligations of the discontinued North American refuse truck body business.

In connection with the 2012 sale of the former Federal Signal Technologies Group ("FSTech"), \$22.0 million was placed into escrow as security for indemnification obligations provided by the Company pursuant to the sale agreement. A significant portion of the escrow identified for general indemnification obligations was held for a period of 18 months following the sale date with the remaining general escrow funds to be held for 36 months following the sale date. In the first quarter of 2014, the Company received \$7.0 million from the escrow identified for general indemnification obligations.

In the three months ended September 30, 2015, the Company received the remaining general escrow funds of \$4.0 million and recorded this income as a component of Gain from discontinued operations and disposal, net of tax within

its Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2015. There are no amounts remaining in escrow as of September 30, 2015.



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## 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 should be read together with, the condensed consolidated financial statements and the accompanying notes contained in this Form 10-Q, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Information in MD&A is intended to assist the reader in obtaining an understanding of (i) the condensed consolidated financial statements, (ii) 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 (iii) 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) sewer cleaners, vacuum trucks, street sweepers and other environmental vehicles and equipment, (ii) safety, security and communication equipment and (iii) vehicle-mounted, aerial platforms for fire fighting, rescue, electric utility and industrial applications. We also are a designer and supplier of technology-based products and services for the public safety market. In addition, we sell parts and provide service, repair, equipment rentals and training as part of a comprehensive offering to our customer base. We operate twelve manufacturing facilities in six countries around the world and provide products and integrated solutions to municipal, governmental, industrial and commercial customers in all regions of the world. As described in Note 10 – Segment Information to the accompanying condensed consolidated financial statements, the Company's business units are organized and managed in three operating segments: Environmental Solutions Group, Safety and Security Systems Group and Fire Rescue Group.

Net sales decreased by \$13.5 million, or 6%, in the three months ended September 30, 2015 as compared to the prior-year quarter. Net sales in the current-year quarter were adversely impacted by foreign currency translation effects of \$5.1 million. Our Fire Rescue Group reported a net sales increase of \$0.6 million, or 2%, despite unfavorable currency translation effects of \$3.4 million. The improvement was primarily due to increased sales into U.S. industrial and European markets, partially offset by lower sales into the Asia Pacific. This increase was offset by lower net sales in our Environmental Solutions and Safety and Security Systems groups. In our Environmental Solutions Group, net sales were \$11.1 million lower than the prior-year quarter, due to reduced sales of domestic vacuum trucks and sewer cleaners. Within our Safety and Security Systems Group, net sales were down \$3.0 million compared to the prior-year quarter, primarily due to lower sales of industrial products into oil and gas markets, as well as a \$1.7 million unfavorable currency translation impact, partially offset by higher sales into European public safety markets.

Despite an unfavorable foreign currency translation impact of \$18.8 million, net sales for the nine months ended September 30, 2015 increased by \$4.1 million, or 1%, compared to the prior-year period. The increase was largely driven by higher shipments of street sweepers in our Environmental Solutions Group, where net sales increased by \$15.8 million, or 4%. This improvement was offset by reductions in net sales in our Fire Rescue and Safety and Security Systems groups of \$7.5 million and \$4.2 million, respectively, which were due in large part to the aforementioned adverse currency translation effects. Excluding the adverse currency translation effects, net sales in our Fire Rescue and Safety and Security Systems groups for the nine months ended September 30, 2015 were up 6% and 1%, respectively, compared to the prior-year period.

Operating income increased by \$1.0 million, or 4%, to \$25.9 million in the three months ended September 30, 2015 as compared to the prior-year quarter. The improvement was largely due to a \$0.9 million increase in operating income in our Fire Rescue Group that was net of a \$0.3 million restructuring charge associated with headcount reductions designed to reduce ongoing operating costs. Consolidated operating margin for the three months ended September 30, 2015 was 12.6%, up from 11.4% in the prior year, benefiting from margin improvements in all three of our groups. Approximately 0.8% of the margin improvement related to an earlier-than-expected recovery against an order cancellation in our Safety and Security Systems Group. For the nine months ended September 30, 2015, operating income increased by \$18.3 million, or 30%, to \$79.9 million, translating to a consolidated operating margin of 12.1% compared to 9.4% in the prior-year period. The increase was primarily attributable to improved operating leverage and

higher volumes within our Environmental Solutions Group, which drove increased gross profit, partially offset by \$0.7 million of restructuring charges. While foreign currency translation has adversely impacted consolidated net sales in 2015, the impact on operating income has not been significant, reducing consolidated operating income by less than 2% in each of the current-year periods.

Income before income taxes increased by \$1.4 million, or 6%, to \$25.1 million for the three months ended September 30, 2015 as compared to the prior-year quarter. The increase was driven by the improvement in operating income, as well as a \$0.4 million reduction in interest expense resulting from lower debt levels. For the nine months ended September 30, 2015, income before income taxes was \$76.9 million, representing an \$18.7 million, or 32%, improvement compared to the prior-year period.

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The increase was primarily driven by an \$18.3 million improvement in operating income, and a \$1.1 million reduction in interest expense, partially offset by a \$0.7 million increase in other expense, net.

Net income from continuing operations for the three and nine months ended September 30, 2015 was also impacted by increases in income tax expense of \$0.2 million and \$8.9 million, respectively, largely due to higher pre-tax income levels. The effective tax rate for the nine months ended September 30, 2015 of 35.5% was higher than the 31.6% effective tax rate in the prior-year period, which was favorably impacted by a \$1.5 million net reduction in unrecognized tax benefits, primarily related to the completion of an IRS audit.

Total orders for the three months ended September 30, 2015 decreased by \$20.5 million, or 9%, compared to the prior-year quarter. Despite an unfavorable foreign currency translation impact of \$6.1 million, orders within our Fire Rescue Group were up \$13.8 million, or 62%. In local currency, orders within our Fire Rescue Group increased by 94%, largely due to increased orders from the Asia Pacific and the Middle East. Offsetting this improvement was a \$31.6 million reduction in orders in our Environmental Solutions Group, primarily due to reductions in U.S. orders for vacuum trucks, sewer cleaners and street sweepers, partially offset by improved vacuum truck and street sweeper orders from Canadian markets. Orders in our Safety and Security Systems Group were down \$2.7 million, which included a \$2.2 million unfavorable currency translation impact.

Total orders decreased by \$106.1 million, or 15%, in the nine months ended September 30, 2015. In the first nine months of 2015, each of our Groups has seen a reduction in orders, with decreases of 19%, 15% and 6% in our Environmental Solutions, Fire Rescue and Safety and Security Systems groups, respectively. Largely as a result of increased shipments and the decrease in orders in each of our groups during the first nine months of 2015, including the effects of adverse foreign currency translation, our consolidated backlog has decreased by \$60.5 million, or 18%, from \$328.2 million at December 31, 2014 to \$267.7 million at September 30, 2015. Consolidated backlog at September 30, 2015 was relatively unchanged from the \$269.1 million reported at the end of the second quarter of 2015.

## Results of Operations

The following table summarizes our Condensed 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 September 30,			Nine Months Ended September 30,			
	2015	2014	Change	2015	2014	Change	
Net sales	\$205.8	\$219.3	\$(13.5 )	\$658.2	\$654.1	\$4.1	
Cost of sales	146.2	160.9	(14.7 )	473.7	490.0	(16.3 )	
Gross profit	59.6	58.4	1.2	184.5	164.1	20.4	
Selling, engineering, general and administrative expenses	33.4	33.4	—	103.9	102.5	1.4	
Restructuring	0.3	0.1	0.2	0.7	—	0.7	
Operating income	25.9	24.9	1.0	79.9	61.6	18.3	
Interest expense	0.5	0.9	(0.4 )	1.7	2.8	(1.1 )	
Other expense, net	0.3	0.3	—	1.3	0.6	0.7	
Income before income taxes	25.1	23.7	1.4	76.9	58.2	18.7	
Income tax expense	(8.7 )	(8.5 )	(0.2 )	(27.3 )	(18.4 )	(8.9 )	
Income from continuing operations	16.4	15.2	1.2	49.6	39.8	9.8	
Gain from discontinued operations and disposal, net of tax	2.4	0.2	2.2	2.4	0.1	2.3	
Net income	\$18.8	\$15.4	\$3.4	\$52.0	\$39.9	\$12.1	
Operating data:							
Operating margin	12.6	% 11.4	% 1.2	% 12.1	% 9.4	% 2.7	%
Diluted earnings per share – Continuing operations	\$0.26	\$0.24	\$0.02	\$0.78	\$0.62	\$0.16	
Total orders	204.3	224.8	(20.5 )	603.8	709.9	(106.1 )	

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Backlog	267.7	352.8	(85.1 )	267.7	352.8	(85.1 )
Depreciation and amortization	3.7	3.8	(0.1 )	11.4	11.1	0.3

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## Net sales

Net sales decreased by \$13.5 million, or 6%, for the three months ended September 30, 2015 compared to the prior-year quarter. The Fire Rescue Group reported a \$0.6 million improvement in net sales, despite an unfavorable foreign currency translation effect of \$3.4 million. In local currency, net sales within the Fire Rescue Group were up 20%, driven by increased sales into European and U.S. industrial markets, partially offset by decreased sales into the Asia Pacific. Offsetting this improvement was an \$11.1 million reduction in net sales in our Environmental Solutions Group, primarily due to decreases in vacuum truck and sewer cleaner sales of \$7.0 million and \$4.0 million, respectively. In the Safety and Security Systems Group, net sales decreased by \$3.0 million, largely due to lower sales of industrial products into oil and gas markets, as well as a \$1.7 million unfavorable currency translation impact, partially offset by higher sales into European public safety markets.

For the nine months ended September 30, 2015, net sales increased by \$4.1 million, or 1%, compared to the prior-year period, despite an \$18.8 million unfavorable foreign currency translation impact. Net sales in the Environmental Solutions Group increased by \$15.8 million, or 4%, primarily due to a \$23.3 million increase in shipments of street sweepers, partially offset by a \$5.2 million reduction in sewer cleaner sales. The improvement in net sales within our Environmental Solutions Group was partially offset by lower sales within the Fire Rescue and Safety and Security Systems groups. In the Fire Rescue Group, net sales for the nine months ended September 30, 2015 in local currency were 10% higher than the prior-year period, largely represented by increased sales into U.S. industrial markets, Europe and the Middle East. However, primarily due to a \$12.4 million adverse foreign currency translation impact, reported net sales in this group were down \$7.5 million compared to the prior-year period. In the Safety and Security Systems Group, net sales decreased by \$4.2 million, largely due to a \$9.6 million decline in sales of industrial products, primarily attributable to lower demand in oil and gas markets and coal markets and an unfavorable foreign currency translation effect of \$6.4 million, partially offset by a \$7.7 million improvement in sales into European public safety markets and a \$5.0 million increase in international sales of integrated systems.

## Cost of sales

Cost of sales decreased by \$14.7 million, or 9%, for the three months ended September 30, 2015 compared to the prior-year quarter, largely due to decreases of \$11.6 million within the Environmental Solutions Group, primarily driven by lower unit volumes and favorable product mix. Costs of sales were further reduced by \$2.9 million within the Safety and Security Systems Group, largely driven by favorable foreign currency translation and sales mix effects. For the nine months ended September 30, 2015, cost of sales decreased by \$16.3 million, or 3%, compared to the prior-year period, largely due to an \$8.7 million decrease within the Fire Rescue Group, principally associated with a \$9.7 million favorable foreign currency translation effect. The Safety and Security Systems Group also reported a \$7.4 million cost of sales reduction, driven by favorable foreign currency and sales mix effects.

## Gross profit

For the three months ended September 30, 2015, gross profit increased by \$1.2 million compared to the prior-year quarter. Gross margin for the three months ended September 30, 2015 was 29.0%, up from 26.6% in the prior-year quarter. The increase in gross margin was primarily the result of productivity and facilities utilization improvements and improved pricing within the Environmental Solutions Group, together with effects of receiving a large order cancellation fee during the current-year quarter in the Safety and Security Systems Group. The Fire Rescue Group also saw improvement in gross margin for the three months ended September 30, 2015 rising to 19.2% from 16.5% in the prior-year quarter, partly attributable to a recent effort to reduce the intake of low-margin orders, as well as production efficiencies resulting from recent manufacturing facility improvements.

For the nine months ended September 30, 2015, gross profit increased by \$20.4 million, or 12%, compared to the prior-year period. Gross margin for the nine months ended September 30, 2015 was 28.0%, up from 25.1% in the prior-year period. The drivers of the gross margin improvement for the nine-month period were largely similar to those which contributed to the improvement in the three months ended September 30, 2015. In addition, the Safety and Security Systems Group generated steady gross margin improvement primarily attributable to reduced costs, moderate pricing gains, favorable product mix, and the receipt of the aforementioned order cancellation fee.

Selling, engineering, general and administrative expenses

Selling, engineering, general and administrative (“SEG&A”) expenses for the three months ended September 30, 2015 were flat with a \$0.4 million decrease in the Fire Rescue Group, primarily due to favorable foreign currency effects, being partially offset by an increase of \$0.5 million in the Environmental Solutions Group, largely due to higher employee compensation costs.

For the nine months ended September 30, 2015, SEG&A expenses increased by \$1.4 million compared to the prior-year period,

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largely due to increases of \$1.2 million within the Environmental Solutions Group, associated with higher employee compensation costs and \$0.8 million within Corporate, primarily due to higher fees for professional services and increased employee costs. The Safety and Security Systems Group also reported a \$0.8 million increase in SEG&A expenses, primarily due to higher engineering expenses for new product development. Offsetting these increases was a \$1.4 million reduction in SEG&A expenses within the Fire Rescue Group, primarily as a result of favorable foreign currency effects, offset by increased provisions for doubtful accounts and legal fees.

Operating income

Operating income for the three months ended September 30, 2015 increased by \$1.0 million, or 4%, compared to the prior-year quarter. The increase was primarily attributable to a \$0.9 million improvement in operating income at the Fire Rescue Group. Operating income in the current-year quarter included \$0.3 million of restructuring expenses in connection with headcount reductions at our Finnish manufacturing facilities. Consolidated operating margin for the three months ended September 30, 2015 was 12.6%, up from 11.4% in the prior year, benefiting from margin improvements in all three of our groups. Approximately 0.8% of the margin improvement related to an earlier-than-expected recovery against an order cancellation in the Safety and Security Systems Group. For the nine months ended September 30, 2015, operating income increased by \$18.3 million, or 30%, to \$79.9 million, reflecting an operating margin of 12.1% compared to 9.4% in the prior-year period. The increase was primarily attributable to improved operating leverage and increased volumes within the Environmental Solutions Group, which drove improved gross profit, partially offset by \$0.7 million of restructuring charges.

Interest expense

Compared with the same periods of the prior year, interest expense decreased by \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2015, largely due to significant reductions in debt levels.

Other expense, net

Other expense, net totaled \$0.3 million in the three months ended September 30, 2015 and 2014. For the nine months ended September 30, 2015, other expense, net was \$1.3 million, up from \$0.6 million in the prior-year period, with the increase largely driven by higher realized losses from foreign currency transactions.

Income tax expense

The Company recognized income tax expense of \$8.7 million and \$8.5 million for the three months ended September 30, 2015 and 2014, respectively. The increase in tax expense in the current-year quarter is largely due to higher pre-tax income levels. The effective tax rate for the three months ended September 30, 2015 was 34.7%, compared to 35.9% in the prior-year quarter.

For the nine months ended September 30, 2015 and 2014, the Company recognized income tax expense of \$27.3 million and \$18.4 million, respectively. The effective tax rate was 35.5% and 31.6% for the nine months ended September 30, 2015 and 2014, respectively. The increase in tax expense and the effective tax rate in the nine months ended September 30, 2015 was primarily due to higher pre-tax income levels and the effects of a \$1.5 million tax benefit recognized in the prior-year period associated with a reduction in unrecognized tax benefits, primarily related to the completion of an IRS audit.

Income from continuing operations

Income from continuing operations for the three months ended September 30, 2015 increased by \$1.2 million, compared to the prior-year quarter, largely due to increased operating income and reduced interest expense, as explained above, partially offset by a \$0.2 million increase in income tax expense.

For the nine months ended September 30, 2015, income from continuing operations increased by \$9.8 million, compared to the prior-year period, largely due to increased operating income and reduced interest expense, as explained above, partially offset by increases in income tax expense and other expense, net.

Gain from discontinued operations and disposal

There were no new discontinued operations in 2014 or in the nine months ended September 30, 2015. In the three months ended September 30, 2015, the Company received \$4.0 million from the general escrow funds originally established in connection with the Company's 2012 sale of FSTech. This income was recorded as a component of Gain from discontinued operations and disposal, net of tax expense of \$1.6 million, within the Condensed Consolidated

Statement of Operations for the three and nine months ended September 30, 2015. There are no amounts remaining in escrow as of September 30, 2015.

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Orders

Three months ended September 30, 2015 vs. three months ended September 30, 2014

Total orders decreased by \$20.5 million, or 9%, for the three months ended September 30, 2015. The reduction was largely driven by a decrease of \$31.6 million in the Environmental Solutions Group that was primarily due to reductions in U.S. orders for vacuum trucks, sewer cleaners and street sweepers, partially offset by improved vacuum truck and street sweeper orders from Canadian markets. Vacuum truck orders were adversely impacted by softness in oil and gas markets, which also had an indirect effect on demand within other industrial markets. In the prior-year quarter, there were a number of large fleet orders for street sweepers and sewer cleaners that did not repeat. Orders in the Safety and Security Systems Group were also down \$2.7 million. In the Fire Rescue Group, orders improved by \$13.8 million, or 62%, despite an unfavorable foreign currency translation effect of \$6.1 million. In local currency, orders within the Fire Rescue Group increased by 94%, reflecting higher orders from the Asia Pacific and the Middle East.

U.S. municipal and governmental orders declined by 22%, primarily due to a \$21.7 million decrease within the Environmental Solutions Group, which included reductions in orders for sewer cleaners and street sweepers of \$11.7 million and \$9.5 million, respectively. Orders of street sweepers and sewer cleaners were softer when compared with exceptionally high levels in the prior-year quarter, which included a number of large municipal fleet orders that did not repeat in the current-year quarter.

U.S. industrial orders decreased by 31%, largely driven by a \$20.2 million reduction within the Environmental Solutions Group, which was primarily due to an \$18.8 million decrease in vacuum truck orders associated with softness in oil and gas markets. Decreased demand within oil and gas markets also contributed to a \$1.7 million reduction in industrial orders in the Safety and Security Systems Group.

Non-U.S. orders increased by 40% and were driven by a \$13.5 million increase within the Fire Rescue Group, net of unfavorable currency translation effects, associated with strong order intake from the Asia Pacific and the Middle East. The Environmental Solutions Group also reported a \$10.3 million increase in non-U.S. orders, largely on higher vacuum truck and street sweeper orders in Canada.

Nine months ended September 30, 2015 vs. nine months ended September 30, 2014

Total orders decreased by \$106.1 million, or 15%, for the nine months ended September 30, 2015. The reduction was largely driven by a decrease of \$77.3 million within the Environmental Solutions Group, as well as decreases of \$17.2 million and \$11.6 million within the Fire Rescue and Safety and Security Systems groups, respectively. Within the Environmental Solutions Group, vacuum truck orders were adversely impacted by softness in oil and gas markets, while sewer cleaner and street sweeper orders from our domestic municipal markets decreased largely due to fewer fleet orders when compared with the prior-year period. Partially offsetting these decreases were improved sewer cleaner orders from Canada. Orders within the Fire Rescue Group were adversely impacted by an unfavorable foreign currency translation effect of \$18.9 million. In local currency, orders within the Fire Rescue Group increased by 4%. Within the Safety and Security Systems Group, unfavorable foreign currency translation effects of \$6.8 million, as well as decreased orders for outdoor warning systems, integrated systems and industrial products, were partially offset by a \$10.2 million improvement in orders from European public safety markets.

U.S. municipal and governmental orders decreased by 18%, primarily due to a \$44.5 million reduction within the Environmental Solutions Group, where orders for sewer cleaners and street sweepers were down by \$21.9 million and \$21.5 million, respectively, compared to the prior-year period. Sewer cleaner and street sweeper orders from our municipal markets decreased largely due to fewer fleet orders when compared with the prior-year period. Further contributing to the overall decrease in U.S. municipal and governmental orders was a \$3.4 million reduction within the Safety and Security Systems Group, largely due to lower orders for outdoor warning systems.

U.S. industrial orders decreased by 27%, largely driven by a \$40.6 million reduction within the Environmental Solutions Group that included a \$39.6 million decline in vacuum truck orders, reflecting softness in oil and gas markets. The Fire Rescue Group reported an \$8.3 million reduction in U.S. industrial orders, largely attributable to multi-unit orders received in the prior year that did not repeat.

Non-U.S. orders decreased by 2% and were largely impacted by an \$8.9 million decrease within the Fire Rescue Group, primarily due to unfavorable foreign currency translation effects and lower orders from the Asia Pacific markets, partially offset by improved orders from the Middle East. Within the Environmental Solutions Group, non-U.S. orders improved by \$7.8 million, largely due to increased orders from Canada, partially offset by lower orders from the Middle East. The prior-year period included a large fleet order for street sweepers from the Middle East.

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## Backlog

Backlog was \$267.7 million at September 30, 2015 compared to \$352.8 million at September 30, 2014. The decrease of \$85.1 million, or 24%, was primarily due to a \$74.1 million reduction in backlog at the Environmental Solutions Group, reflective of lower orders for vacuum trucks, street sweepers and sewer cleaners, associated with lower activity in oil and gas markets and the absence of certain large fleet orders received in the prior year. The reduction in Environmental Solutions Group orders also includes the effects of receiving fewer advance orders from customers associated with shorter lead times for our products following our recent capacity improvements. Backlog within the Fire Rescue Group decreased by \$12.2 million, primarily attributable to unfavorable foreign currency translation effects.

## Environmental Solutions

The following table summarizes the Environmental Solutions Group's operating results as of and for the three and nine months ended September 30, 2015 and 2014:

(\$ in millions)	Three Months Ended September 30,			Nine Months Ended September 30,			
	2015	2014	Change	2015	2014	Change	
Net sales	\$123.0	\$134.1	\$(11.1 )	\$409.8	\$394.0	\$15.8	
Operating income	21.5	21.5	—	74.6	59.8	14.8	
Operating data:							
Operating margin	17.5	% 16.0	% 1.5	% 18.2	% 15.2	% 3.0	%
Total orders	\$108.5	\$140.1	\$(31.6 )	\$329.0	\$406.3	\$(77.3 )	
Backlog	137.5	211.6	(74.1 )	137.5	211.6	(74.1 )	
Depreciation and amortization	1.7	1.7	—	5.5	4.9	0.6	

Three months ended September 30, 2015 vs. three months ended September 30, 2014

Total orders decreased by \$31.6 million, or 23%, for the three months ended September 30, 2015. U.S. orders decreased by \$41.9 million, or 33%, largely due to reductions in orders for vacuum trucks, sewer cleaners and street sweepers of \$20.4 million, \$10.0 million and \$9.2 million, respectively. Vacuum truck orders were adversely impacted by softness in oil and gas markets, which had both a direct and indirect effect on demand within other industrial markets. In the prior-year quarter, there were a number of large fleet orders from municipalities for street sweepers and sewer cleaners that did not repeat in the three months ended September 30, 2015. Non-U.S. orders increased by \$10.3 million, or 69%, for the three months ended September 30, 2015. Orders from Canada were up \$9.8 million on increased vacuum truck and street sweepers, including a large municipal fleet order for street sweepers.

Net sales decreased by \$11.1 million, or 8%, for the three months ended September 30, 2015. U.S. sales decreased by \$10.9 million, or 10%, primarily driven by decreases in shipments of vacuum trucks and sewer cleaners of \$10.1 million and \$3.9 million, respectively. Partially offsetting these reductions was a \$1.1 million increase in street sweeper sales. A decline in the demand for vacuum trucks and sewer cleaners is reflective of softness in the oil and gas markets, which has also driven decreased demand for additional rental units in the sewer cleaner market. Non-U.S. sales decreased slightly by \$0.2 million for the three months ended September 30, 2015 largely relating to activity in our Canadian markets, with increased vacuum truck shipments of \$3.1 million being partially offset by decreased street sweeper and sewer cleaner sales of \$1.5 million and \$0.7 million, respectively.

Cost of sales decreased by \$11.6 million for the three months ended September 30, 2015. Lower unit volumes and favorable product mix effects of \$6.5 million and \$5.0 million, respectively, were the primary contributors to the decline. Gross margin for the three months ended September 30, 2015 improved to 26.6% from 24.0% in the prior year, mainly due to improved pricing, as well as productivity and capacity improvements at our manufacturing facilities.

SEG&A expenses increased by \$0.5 million for the three months ended September 30, 2015, largely pertaining to increased employee compensation costs.

Operating income remained flat for the three months ended September 30, 2015. Pricing and productivity improvements contributed to a \$0.5 million increase in gross profit, which was fully offset by the \$0.5 million

increase in SEG&A expenses.

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Nine months ended September 30, 2015 vs. nine months ended September 30, 2014

Total orders decreased by \$77.3 million, or 19%, for the nine months ended September 30, 2015. U.S. orders decreased by \$85.1 million, or 25%, largely due to reductions in orders for vacuum trucks, sewer cleaners and street sweepers of \$40.9 million, \$20.5 million and \$19.1 million, respectively. Vacuum truck orders were adversely impacted by softness in oil and gas markets, while street sweeper and sewer cleaner orders from our municipal markets decreased largely due to fewer fleet orders when compared with the prior-year period. Non-U.S. orders increased by \$7.8 million, or 12%, for the nine months ended September 30, 2015. Orders from Canada were up \$20.2 million, primarily driven by improved sewer cleaner orders, partially offset by declines in orders from the Middle East and Mexico of \$10.6 million and \$1.6 million, respectively. The prior-year period included a large fleet order for street sweepers from the Middle East.

Net sales increased by \$15.8 million, or 4%, for the nine months ended September 30, 2015. U.S. sales increased by \$11.3 million, or 4%, primarily due to a \$26.3 million increase in shipments of street sweepers. Partially offsetting higher street sweeper sales were declines of sewer cleaner and vacuum truck shipments of \$9.8 million and \$6.8 million, respectively. Increased street sweeper shipments are reflective of strong municipal order intake in prior periods. A decline in the demand for sewer cleaners and vacuum trucks is reflective of softness in the oil and gas markets, which has also driven decreased demand for additional rental units in the sewer cleaner market. Non-U.S. sales increased by \$4.5 million, or 7%, largely driven by improved sales within Canada, which includes increases in sales of vacuum trucks and sewer cleaners of \$6.2 million and \$3.8 million, respectively, partially offset by a \$3.9 million decline in street sweeper shipments. Canadian street sweeper sales in the prior-year period included shipments of large fleet orders that did not repeat.

Cost of sales decreased slightly by \$0.2 million for the nine months ended September 30, 2015. Favorable product mix effects of \$17.7 million were largely offset by a \$17.6 million increase associated with higher unit volumes. Gross margin for the nine months ended September 30, 2015 improved to 26.2% from 23.2% in the prior year, largely due to favorable pricing, coupled with productivity and capacity improvements at our manufacturing facilities.

SEG&A expenses increased by \$1.2 million for the nine months ended September 30, 2015. The increase in SEG&A expenses largely resulted from increased employee compensation costs.

Operating income increased by \$14.8 million, or 25%, for the nine months ended September 30, 2015. The increase in operating income was the result of higher gross profit of \$16.0 million, primarily attributable to operating leverage and improved volumes, partially offset by the \$1.2 million increase in SEG&A expenses.

Backlog was \$137.5 million at September 30, 2015 compared to \$211.6 million at September 30, 2014. The decrease was largely due to a lower backlog for vacuum trucks, street sweepers and sewer cleaners, which declined by \$72.0 million in the aggregate, resulting from reduced demand from oil and gas markets and the absence of certain large fleet orders received in the prior year. The reduction in orders also includes the effects of receiving fewer advance orders from customers associated with shorter lead times for our products following our recent capacity improvements.

#### Safety and Security Systems

The following table summarizes the Safety and Security Systems Group's operating results as of and for the three and nine months ended September 30, 2015 and 2014:

(\$ in millions)	Three Months Ended September 30,			Nine Months Ended September 30,			
	2015	2014	Change	2015	2014	Change	
Net sales	\$56.7	\$59.7	\$(3.0 )	\$171.8	\$176.0	\$(4.2 )	
Operating income	9.3	9.4	(0.1 )	23.2	21.2	2.0	
Operating data:							
Operating margin	16.4	% 15.7	% 0.7	% 13.5	% 12.0	% 1.5	%
Total orders	\$59.7	\$62.4	\$(2.7 )	\$177.8	\$189.4	\$(11.6 )	
Backlog	41.8	40.6	1.2	41.8	40.6	1.2	
Depreciation and amortization	1.2	1.2	—	3.5	3.4	0.1	

Three months ended September 30, 2015 vs. three months ended September 30, 2014

Total orders decreased by \$2.7 million or 4%, for the three months ended September 30, 2015. U.S. orders decreased \$1.8 million, primarily due to a \$2.9 million decrease in orders for outdoor warnings systems when compared to the prior-year quarter that included two large orders that did not repeat. Further contributing to the total U.S. order decrease was a \$1.6 million decline in industrial orders, largely attributable to reduced demand in oil and gas markets, partially offset by \$2.3

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million of improved orders in domestic police markets. Non-U.S. orders decreased by \$0.9 million, largely due to a \$2.9 million reduction in integrated systems orders that included the effect of a large order cancellation, as well as an unfavorable foreign currency translation impact of \$2.2 million and a \$0.9 million decrease in orders for industrial products sold into coal markets. These reductions were partially offset by a \$5.0 million improvement in orders from European public safety markets.

Net sales decreased by \$3.0 million, or 5%, for the three months ended September 30, 2015. U.S. sales decreased by \$2.9 million, largely due to a \$2.7 million decline in sales into industrial markets, primarily attributable to lower demand in oil and gas markets and coal markets. Non-U.S. sales decreased by \$0.1 million, primarily due to a \$2.9 million reduction in sales of outdoor warning systems, a \$1.7 million unfavorable foreign currency translation effect and a \$1.5 million decrease in sales of industrial products into international coal markets. These reductions were partially offset by a \$4.5 million increase in sales into international public safety markets, associated with improved demand in Europe, and the effects of receiving a large order cancellation fee in the quarter.

Cost of sales decreased by \$2.9 million, or 8%, for the three months ended September 30, 2015. The decrease largely resulted from a \$1.3 million favorable foreign currency impact, as well as improved sales mix associated with products sold into domestic and international police markets, as well as the positive effects of cost reduction efforts.

Gross margin for the three months ended September 30, 2015 improved to 38.6% from 36.9% in the prior-year period, largely as a result of the receipt of the aforementioned order cancellation fee.

SEG&A expenses for the three months ended September 30, 2015 were generally consistent with the prior-year quarter, increasing by \$0.1 million.

Operating income decreased by \$0.1 million for the three months ended September 30, 2015, largely due to a \$0.1 million decrease in gross profit and the \$0.1 million increase in SEG&A expenses, partially offset by the absence of \$0.1 million of restructuring expenses incurred in the prior year.

Nine months ended September 30, 2015 vs. nine months ended September 30, 2014

Total orders decreased by \$11.6 million, or 6%, for the nine months ended September 30, 2015. U.S. orders decreased by \$7.6 million, or 7%, primarily driven by a \$5.9 million decrease in orders for outdoor warnings systems when compared to the prior-year period that included two large orders that did not repeat. Non-U.S. orders decreased by \$4.0 million, or 5%, primarily due to a \$6.8 million unfavorable foreign currency effect and a \$5.1 million decline in integrated systems orders associated with softness in international oil and gas markets. Further contributing to the decrease was a \$3.0 million decline in orders for industrial products sold into international coal markets. These reductions were partially offset by a \$10.2 million improvement in orders from European public safety markets linked to higher demand, as well as the effects of several large orders received during the current-year period.

Net sales decreased by \$4.2 million, or 2%, for the nine months ended September 30, 2015. U.S. sales decreased by \$2.0 million, largely due to a \$4.2 million decrease in sales of industrial products, primarily attributable to lower demand in oil and gas markets and coal markets, partially offset by a \$1.1 million increase in outdoor warning system shipments and a \$1.0 million improvement in sales within our public safety markets. Non-U.S. sales decreased by \$2.2 million, principally due to an unfavorable foreign currency impact of \$6.4 million, a \$5.4 million decrease in sales of industrial products and a \$3.4 million decrease in sales of outdoor warning systems. Partially offsetting these reductions was a \$7.7 million improvement in sales into European public safety markets, and a \$5.0 million increase in integrated systems sales, primarily driven by the timing of shipping products to fulfill large orders, as well as the effect of receiving the aforementioned order cancellation fee in the third quarter of 2015.

Cost of sales decreased by \$7.4 million, or 6%, for the nine months ended September 30, 2015. The decrease largely resulted from a \$4.7 million favorable foreign currency impact and a favorable mix of customers and orders, as well as reductions in manufacturing, freight and product costs. Gross margin for the nine months ended September 30, 2015 improved to 36.6% from 33.9% in the prior-year period largely as a result of reduced costs, moderate pricing gains realized in 2015, a favorable change in the mix of products sold to customers, and the receipt of the aforementioned order cancellation fee.

SEG&A expenses increased by \$0.8 million for the nine months ended September 30, 2015, largely due to higher engineering expenses for new product development and increased employee costs.

Operating income increased by \$2.0 million, or 9%, for the nine months ended September 30, 2015, largely due to a \$3.2 million improvement in gross profit, partially offset by the \$0.8 million increase in SEG&A expenses and \$0.4 million of expense associated with restructuring activities, primarily associated with severance costs incurred in connection with a voluntary reduction-in-force that was completed at our U.K. coal-mining business.



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Backlog increased to \$41.8 million at September 30, 2015 compared to \$40.6 million at September 30, 2014.

## Fire Rescue

The following table summarizes the Fire Rescue Group's operating results as of and for the three and nine months ended September 30, 2015 and 2014:

(\$ in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
Net sales	\$26.1	\$25.5	\$0.6	\$76.6	\$84.1	\$(7.5)
Operating income (loss)	0.7	(0.2)	0.9	1.0	(1.3)	2.3
Operating data:						
Operating margin	2.7	% (0.8)	% 3.5	% 1.3	% (1.5)	% 2.8
Total orders	\$36.1	\$22.3	\$13.8	\$97.0	\$114.2	\$(17.2)
Backlog	88.4	100.6	(12.2)	88.4	100.6	(12.2)
Depreciation and amortization	0.8	0.9	(0.1)	2.3	2.6	(0.3)

Three months ended September 30, 2015 vs. three months ended September 30, 2014

Total orders increased by \$13.8 million, or 62%, for the three months ended September 30, 2015, largely due to improved orders in the Asia Pacific and the Middle East, offset by a \$6.1 million unfavorable foreign currency translation impact. In local currency, total orders increased by 94%.

Net sales increased by \$0.6 million, or 2%, for the three months ended September 30, 2015, primarily driven by increased sales into European and U.S. industrial markets of \$4.5 million and \$3.0 million, respectively, partially offset by a \$3.2 million decrease in sales into the Asia Pacific market. Net sales were also impacted by unfavorable foreign currency translation effects of \$3.4 million. In local currency, net sales were up 20% compared to the prior-year quarter.

Cost of sales of \$21.1 million for the three months ended September 30, 2015 were consistent with the prior-year quarter, and included favorable foreign currency effects of \$2.6 million, partially offset by a \$2.4 million increase associated with product mix. Gross margin for the three months ended September 30, 2015 improved to 19.2%, compared to 16.5% in the prior year, largely due to the effects of product mix resulting from a concerted effort to reduce the intake of low-margin orders, as well as production efficiencies resulting from recent manufacturing facility improvements.

SEG&A expenses decreased by \$0.4 million for the three months ended September 30, 2015, primarily due to a \$0.7 million favorable foreign currency translation effect, partially offset by a \$0.2 million increase in legal fees.

The Fire Rescue Group reported operating income of \$0.7 million in the three months ended September 30, 2015, compared to an operating loss of \$0.2 million in the prior-year quarter. The improvement was primarily due to the \$0.8 million increase in gross profit and the \$0.4 million reduction in SEG&A expenses, partially offset by \$0.3 million of restructuring expenses associated with severance costs incurred in connection with a reduction-in-force at our Finnish manufacturing facilities aimed at reducing ongoing operating costs. Similar restructuring charges are anticipated in the fourth quarter of 2015 as we complete our planned headcount reductions.

Nine months ended September 30, 2015 vs. nine months ended September 30, 2014

Total orders decreased by \$17.2 million, or 15%, for the nine months ended September 30, 2015, largely due to a \$18.9 million unfavorable foreign currency translation impact. In local currency, total orders increased by 4%, reflecting increased orders from the Middle East, partially offset by lower order intake from U.S. industrial markets and the Asia Pacific.

Net sales decreased by \$7.5 million for the nine months ended September 30, 2015, primarily driven by unfavorable foreign currency translation effects of \$12.4 million, partially offset by favorable product mix. Measured in local currency, sales were 10% higher than the prior-year period. Increases in sales into U.S. industrial markets, Europe and the Middle East of \$5.9 million, \$5.3 million and \$2.0 million, respectively, were partially offset by a \$8.8 million decrease in sales into the Asia Pacific.

Cost of sales decreased by \$8.7 million for the nine months ended September 30, 2015. The decrease was primarily due to favorable foreign currency translation effects of \$9.7 million, partially offset by changes in product mix. Gross

margin for the nine months ended September 30, 2015 improved to 18.5%, compared to 15.5% in the prior year, largely due to the effects of

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product mix associated with a concerted effort to reduce the intake of low-margin orders, as well as production efficiencies resulting from recent manufacturing facility improvements.

SEG&A expenses decreased by \$1.4 million for the nine months ended September 30, 2015, primarily as a result of a \$2.4 million favorable foreign currency translation effect, offset in part by higher provisions for doubtful accounts and legal fees.

The Fire Rescue Group reported operating income of \$1.0 million in the nine months ended September 30, 2015, compared to an operating loss of \$1.3 million in the prior-year period. The improvement was primarily due to a \$1.2 million increase in gross profit and the \$1.4 million reduction in SEG&A expenses, partially offset by \$0.3 million of restructuring expenses associated with headcount reductions at our Finnish manufacturing facilities.

Backlog was \$88.4 million at September 30, 2015, compared to \$100.6 million at September 30, 2014. The decrease of \$12.2 million, or 12%, was due to the impacts of unfavorable foreign currency translation. Measured in local currency, backlog was down less than 1% compared to the prior year.

Corporate Expenses

Corporate operating expenses for the three months ended September 30, 2015 were \$5.6 million, down from \$5.8 million in the prior-year period, largely associated with decreased employee-related expenses.

Corporate operating expenses for the nine months ended September 30, 2015 were \$18.9 million, up from \$18.1 million in the prior-year period, primarily due to higher fees for professional services and increased employee costs.

Seasonality of Company's Business

Certain of the Company's businesses are susceptible to the influences of seasonal factors, including buying patterns, delivery patterns and productivity influences from holiday periods and weather. The Company tends to have lower sales in the first calendar quarter of each year compared to other quarters as a result of these factors.

Financial Condition, Liquidity and Capital Resources

The Company used its cash flow from operations to fund growth and to make capital investments that sustain its operations, reduce costs, or both. Beyond these uses, remaining cash flow is used to fund dividend payments, make pension contributions, repurchase shares and pay down debt, or it may increase cash balances. The Company may also choose to invest in the acquisition of businesses. We believe that the Company's existing cash balances, cash flow from operations and borrowings available under our Senior Secured Credit Facility and other sources will provide funds sufficient for the Company's operating needs, capital needs and financial commitments.

The Company's cash and cash equivalents totaled \$66.2 million and \$30.4 million as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, \$20.6 million of cash and cash equivalents was held by foreign subsidiaries. Cash and cash equivalents held by subsidiaries outside the U.S. typically are held in the currency of the country in which it is located. This cash is used to fund the operating activities of our foreign subsidiaries and for further investment in foreign operations. Generally, we consider such cash to be permanently reinvested in our foreign operations and our current plans do not demonstrate a need to repatriate such cash to fund U.S. operations. However, in the event that these funds were needed to fund U.S. operations or to satisfy U.S. obligations, they generally could be repatriated. The repatriation of these funds may then cause us to incur additional U.S. income tax expense, which would be dependent on income tax laws and other circumstances at the time any such amounts were repatriated.

Net cash of \$68.4 million and \$44.6 million was provided by continuing operating activities in the nine months ended September 30, 2015 and 2014, respectively. The increase in cash generated by continuing operating activities in the nine months ended September 30, 2015 compared to the same period of the prior year was largely the result of higher earnings.

Net cash of \$4.6 million and \$6.0 million was used for continuing investing activities in the nine months ended September 30, 2015 and 2014, respectively. Capital expenditures in the nine months ended September 30, 2015 and 2014 were \$8.7 million and \$13.3 million, respectively. In addition, in the nine months ended September 30, 2015 and 2014, the Company received \$4.0 million and \$7.0 million, respectively, from the escrow associated with the FSTech Group divestiture.

Net cash of \$27.0 million was used in continuing financing activities in the nine months ended September 30, 2015, compared with \$32.6 million in the prior year. In the nine months ended September 30, 2015, the Company funded cash dividends of \$11.3 million, repurchased \$10.6 million of treasury stock, and redeemed \$3.2 million of stock in order to remit funds to tax authorities to satisfy employees' minimum tax withholdings following the vesting of stock-based compensation. The Company also paid \$2.9 million in scheduled repayments on its Term Loan. In the prior-year period, the Company paid down a net \$20.0 million on its revolving credit facility and \$3.3 million on its Term Loan. In addition, the Company funded cash dividends of \$3.8 million and repurchased \$6.7 million of treasury stock. These financing cash outflows in the nine months ended

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September 30, 2015 and 2014 were partially offset by proceeds from stock option exercises of \$0.9 million and \$1.8 million, respectively.

The Company uses the ratio of total debt to adjusted EBITDA as one measure of its long-term financial stability. The ratio of debt to adjusted EBITDA is a non-GAAP measure that represents total debt divided by the trailing 12-month total of income from continuing operations before interest expense, restructuring charges, other expense, income tax benefit or expense, and depreciation and amortization expense. The Company uses the ratio to calibrate the magnitude of its debt and its debt capacity against adjusted EBITDA, which is used as an operating performance measure. We believe that investors use a version of this ratio in a similar manner. In addition, financial institutions (including the Company's lenders) use the ratio in connection with debt agreements to set pricing and covenant limitations. For these reasons, the Company believes that the ratio is a meaningful metric to investors in evaluating the Company's long-term financial performance and stability. Other companies may use different methods to calculate total debt to EBITDA. The following table summarizes the Company's ratio of total debt to adjusted EBITDA and reconciles income from continuing operations to adjusted EBITDA as of and for the trailing 12-month periods ended September 30, 2015 and 2014:

(in millions)	Trailing Twelve Months Ending September 30,	
	2015	2014
Total debt	\$47.0	\$68.6
Income from continuing operations	72.8	66.5
Add:		
Interest expense	2.7	3.9
Restructuring	0.7	1.3
Other expense, net	2.2	0.8
Income tax expense	33.2	11.9
Depreciation and amortization	15.3	14.9
Adjusted EBITDA	\$126.9	\$99.3
Total debt to adjusted EBITDA ratio	0.4	0.7

In 2013, the Company executed the Senior Secured Credit Facility comprised of a five-year fully funded term loan of \$75.0 million and a five-year \$150.0 million revolving credit facility. As of September 30, 2015, there was no cash drawn and \$23.4 million of undrawn letters of credit under the \$150.0 million revolving credit facility portion of the Senior Secured Credit Facility, with \$126.6 million of net availability for borrowings.

As of September 30, 2015, there were no borrowings against the Company's non-U.S. lines of credit which provide for borrowings up to \$10.2 million.

The Senior Secured Credit Facility requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio and maximum leverage ratio. The financial covenants are measured at each fiscal quarter-end. Restricted payments, including dividends, are permitted only if the pro forma leverage ratio after giving effect to such payment is less than 3.25x, pro forma compliance after giving effect to such payment is maintained for all other financial covenants and there are no existing defaults under the Senior Secured Credit Facility. The Company was in compliance with all of its debt covenants as of September 30, 2015.

The Company anticipates that capital expenditures for 2015 will be in the range of \$12 million to \$15 million.

### 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, 2014. During the nine months ended September 30, 2015, there have been no significant changes in our exposure to market risk.

### Item 4. Controls and Procedures.

As required by Rule 13a-15 under the Exchange Act, 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 defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of September 30, 2015. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded

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that the Company's disclosure controls and procedures were effective as of September 30, 2015. 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 ensuring that the systems evolve with the business. During the three months ended September 30, 2015, 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.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings.

The information set forth under the heading “Legal Proceedings” in Note 6 – Commitments and Contingencies to the accompanying condensed consolidated financial statements as 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 the Company’s 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, 2014.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Restrictions upon the Payment of Dividends

Under the Senior Secured Credit Facility, dividends are permitted only if the following conditions are met:

• No default or event of default shall exist or shall result from such dividend payment;

• The leverage ratio (consolidated total indebtedness to consolidated EBITDA, as defined therein) of the Company and its subsidiaries shall be, for the trailing 12-month period ending on the date of distribution, less than 3.25; and

• The Company is in compliance with the quarterly consolidated total leverage ratio and consolidated fixed charge coverage ratio, as defined therein.

The Company may declare dividends at current levels under the restricted payment guidelines set forth above.

## Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(a)</sup> <sub>(b)</sub>
July 2015 (6/28/15 – 8/1/15)	146,626	\$ 14.5033	146,626	\$72,607,560
August 2015 (8/2/15 – 8/29/15)	160,484	14.1675	160,484	70,333,903
September 2015 (8/30/15 – 9/26/15)	87,320	13.6014	87,320	69,146,229

(a) On April 22, 2014, the Board authorized a stock repurchase program of up to \$15 million of the Company’s common stock. During the second quarter of 2015, cumulative stock repurchases under the April 2014 program reached the maximum authorized level of \$15.0 million. No additional stock repurchases will be made under that program.

(b) On November 4, 2014, the Board authorized an additional stock repurchase program of up to \$75 million of the Company’s common stock.

## Item 3. Defaults upon Senior Securities.

None.

## Item 4. Mine Safety Disclosures.

Not applicable.

## Item 5. Other Information.

On November 3, 2015, the Company issued a press release announcing its financial results for the three and nine months ended September 30, 2015. The full text of the third quarter financial results press release is attached hereto as Exhibit 99.1 to this Form 10-Q.



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Item 6. Exhibits.

- 3.1 Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed April 30, 2010.
- 3.2 Amended and Restated By-laws of the Company. Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q for the quarter ended September 30, 2014.
- 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 Third Quarter Financial Results Press Release Dated November 3, 2015.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Label Linkbase Document.
- 101.PRE XBRL Taxonomy Presentation Linkbase Document.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15 (d) 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: November 3, 2015

/s/ Brian S. Cooper  
Brian S. Cooper  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)