



March 2008

Dear Shareholders:

While 2007 proved to be a challenging year for the Company in some respects, we made significant progress in realizing our goal of positioning Federal Signal as the leading provider of solutions that advance safety, security and well-being for workplaces and communities around the world. As board members over the last few years, we supported this vision and continue to do so now. Over the past few months, Jim Goodwin, as interim president and CEO, has visited many of our customers, partners and communities with whom we serve, and we believe our vision aligns well with their long-term needs.

2007 Accomplishments

In 2007, we delivered \$.62 earnings per share from continuing operations on record revenue of \$1.26 billion compared to the prior year's results of \$.72 per share on revenue of \$1.21 billion. While the Company generated quality results, we are not content with our level of financial performance in 2007, and we are working aggressively to solidify our foundation to deliver higher organic growth and improved profitability. Importantly, we entered 2008 with a number of our core businesses performing well and positioned to deliver even stronger results over the long term. For example:

- The Safety and Security Systems Group registered strong organic order and revenue growth of 17% and operating income growth of 20% during the year;
- International growth improved significantly, which further reduced our exposure to the challenged U.S. economy. For the full year, international orders totaled \$526M, which represents a 22% increase over the prior year. Today, nearly 40% of our orders are from international customers;
- Orders at our Bronto division were up 51% in 2007, matching the record growth we recognized in the business during the previous year. Bronto production has been sold out for 2008 and we are expanding our manufacturing facility while we are already taking orders for 2009; and
- Our Vactor business continued its strong momentum from 2006 generating order growth of 12% for the year. Vactor production is sold out through the third quarter of 2008.

In addition, we boosted our investments to strengthen our product leadership position, through both increased R&D spending and strategic acquisitions. Notable product launches in the year included a newly redesigned Elgin Pelican street sweeper and a broad array of new and improved products and solutions from our Safety and Security Systems Group. We invested in a trio of acquisitions including Codespear, Riverchase and PIPS. These acquisitions provide us with advanced technology platforms that enhance the functionality, intelligence and interoperability of our core safety and security solutions. Coupled with the recent formation of the Public Safety Systems division within the Safety and Security Systems Group, we now have an expanded go-to-market strategy to deploy comprehensive systems in municipalities, universities, hospitals and other institutions.

Our efforts in product development and leadership underscore our value proposition to customers and truly set us apart from the competition. Our robust products are relied upon by customers in more than 100 countries around the world. Our brands represent proven performance, which is why we have many relationships with customers that date back several decades. We have a strong management team executing Federal Signal's strategies and great employees. In short, we are uniquely positioned to succeed in the municipal and industrial markets with a powerful platform for future growth.

2008 – A Pivotal Year

As we look ahead, 2008 should serve as a pivotal year for our Company – marking the completion of our turnaround efforts that began in 2004. We have a number of important initiatives underway that underscore our strategic transformation and strengthen the foundation from which to grow and deliver increasing shareholder value over the long term.

First, we have hired bankers to help us explore strategic alternatives for E-ONE and the remaining Tool businesses. Any actions resulting from this will be in the best interest of our shareholders. Assuming we sell these businesses, we will have finalized the bulk of the major actions with respect to portfolio pruning, resulting in an exciting and healthy portfolio of higher growth businesses that support our Company's vision. Importantly, we will shift our focus and resources to supporting the remaining businesses in our portfolio throughout 2008 and beyond. We

believe a sharper focus and more prudent capital allocation will allow us to generate better overall returns and improved shareholder value creation.

Second, we have engaged in cost containment initiatives throughout our organization to improve the profitability of our operations. While the U.S. economy is facing significant challenges in the near term, we have implemented a board-approved contingency plan to rationalize our expense structure. We believe that realigning our expenses with revenues will allow us to emerge a stronger company when the U.S. economy recovers. Specifically, we will continue to pursue our longer-term objective of reducing selling, engineering, general and administration expenses to the 15 to 16% of sales range. In the first quarter of 2008, we initiated a reorganization of business units and departments, eliminated head count, renegotiated contracts and reduced our equity incentives. We will continue to rationalize our global footprint and look for additional areas of cost reduction throughout this year.

Third, we are continuing our efforts to efficiently allocate capital. Given the recent influx of orders at our Bronto unit, we announced capacity expansion plans at our Finland manufacturing facility. When completed, the expansion will not only add 40% of additional capacity, but will also serve to reduce costs, increase throughput and reduce working capital investments. At the same time, we are holding back on several initiatives that require capital investment until we get a better sense of where the U.S. economy is heading.¹

Lastly, we will strengthen the leadership of our Company. Following the retirement of Bob Welding, we engaged an executive search firm that is working closely with the board of directors to identify and retain a world-class candidate to lead the Company. We have identified the desired skill set of our new leader and are working aggressively to interview qualified candidates.

To complement our leadership transition, we have also taken steps to strengthen our board of directors with the recent appointment of Dennis J. Martin. Dennis is the former chairman and CEO of General Binding Corporation and has led many businesses through business process re-engineering. Prior to joining General Binding Corporation, Dennis was an executive at Illinois Tool Works and Ingersoll-Rand Company. We are delighted to have this important addition to an already strong board and look forward to tapping into his proven track record of creating shareholder value.

Hearing Loss Litigation Update

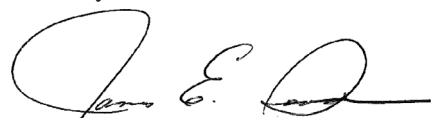
As we have discussed in the past, our Company is involved in a number of legal cases where it is alleged that exposure to our sirens is causing hearing loss in firefighters. Our sirens save lives, both for firefighters en route to an incident, and for pedestrians and passenger cars on the road. We are very encouraged that on January 25th the Supreme Court of Kings County, New York granted Federal Signal's motion to dismiss all New York hearing loss cases. In granting the motion, the New York judge stated that the burden of protecting public employees, including New York firefighters, belongs to the employer. We are scheduled to be in court in Cook County, Illinois during March 2008, and we believe that our highly skilled trial team will be successful.

Concluding Thoughts

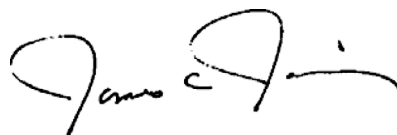
While 2008 will be another year of opportunities and challenges, we expect it will prove to be the pivotal year in our strategic transformation. We believe our long-term prospects are promising and we are proud to be a part of this Company. The future clearly is bright for Federal Signal. We will leverage our core strength in people, products and technologies to provide an enhanced level of safety, security and well-being in communities and workplaces around the world. And we will execute on our key initiatives for 2008 – finalizing recent portfolio changes, realigning our cost structure, prudently managing our capital and bringing on new leadership – to unlock significant value for our shareholders and build a strong foundation from which to grow long term.

On behalf of the board of directors and all the employees at Federal Signal, we thank you for your continued interest and support of our Company.

Sincerely,



James E. Goodwin
Interim President and Chief Executive Officer



James C. Janning
Chairman

¹ Indicative of this renewed cost vigilance is our decision to use the Form 10-K included in this mailing as our Annual Report for 2007. In addition to being a cost savings, you may consider this to be our first step in "going green," because we intend to issue these documents only electronically next year.