FEDERAL SIGNAL CORP /DE/
Form 10-K/A
March 18, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
on
Form 10-K/A

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004
Commission File Number 1-6003

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

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

The Company s telephone number, including area code
(630) 954-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share, with preferred share purchase rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Company s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

State the aggregate market value of voting stock held by nonaffiliates of the Company as of June 30, 2004: Common stock, $1.00 par value $876,612,549

Indicate the number of shares outstanding of each of the Company s classes of common stock, as of January 31, 2005: Common stock, $1.00 par value 48,139,256 shares

Documents Incorporated By Reference

Portions of the proxy statement for the Annual Meeting of Shareholders to be held on April 27, 2005 are incorporated by reference in Parts II and III.

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EXPLANATORY NOTE

On March 16, 2005, the Registrant filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2004. This Amendment No. 1 to Annual Report on Form 10-K/A is being filed by the Registrant solely for the purpose of correcting inadvertent clerical errors contained in the third and penultimate tables relating to deferred tax assets and liabilities contained in Note F Income Taxes to the Registrant s consolidated financial statements included under Item 8. Financial Statements and Supplementary Data . The remainder of the information in the Registrant s consolidated financial statements and the related notes thereto remains unchanged.

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Consent of Independent Registered Public Accounting Firm
Section 302 CEO Certification
Section 302 CFO Certification
Section 906 CEO Certification
Section 906 CFO Certification

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Item 8. ***Financial Statements and Supplementary Data.***

FEDERAL SIGNAL CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
of Federal Signal Corporation

We have audited the accompanying consolidated balance sheets of Federal Signal Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income (loss), shareholders equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Federal Signal Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with US generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Federal Signal Corporation s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005 expressed an unqualified opinion thereon.

Chicago, Illinois
March 9, 2005
except for Note E, as to which the date is
March 15, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
of Federal Signal Corporation

We have audited management s assessment, included in Item 9A(b) of the accompanying Form 10-K, that Federal Signal Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Federal Signal Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Federal Signal Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Federal Signal Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003, and the related consolidated statements of income (loss), shareholders equity and cash flows for each of the three years in the period ended December 31, 2004 of Federal Signal Corporation and our report dated March 9, 2005, except for Note E, as to which the date is March 15, 2005, expressed an unqualified opinion thereon.

Chicago, Illinois
March 9, 2005

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	**2003**
	($ in millions)	
ASSETS		
Manufacturing activities:		
Current assets		
Cash and cash equivalents	$ 14.9	$ 10.0
Accounts receivable, net of allowances for doubtful accounts of $2.3 million and $2.5 million, respectively	200.6	185.9
Inventories Note B	178.2	172.5
Other current assets	24.7	19.2
Total current assets	418.4	387.6
Properties and equipment Note C	110.9	118.7
Other assets		
Goodwill, net of accumulated amortization	352.5	350.6
Other deferred charges and assets	47.6	61.0
Total manufacturing assets	929.4	917.9
Net assets of discontinued operations		23.0
Financial services activities Lease financing and other receivables, net of allowances for doubtful accounts of $3.9 million and $2.5 million, respectively, and net of unearned finance revenue Note D	196.5	230.1
Total assets	$ 1,125.9	$ 1,171.0
LIABILITIES AND SHAREHOLDERS EQUITY		
Manufacturing activities:		
Current liabilities		
Short-term borrowings Note E	$ 18.9	$ 68.6
Accounts payable	79.6	76.2
Accrued liabilities		
Compensation and withholding taxes	30.8	30.4
Customer deposits	24.5	21.2
Other	75.9	65.6
Income taxes		2.6
Total current liabilities	229.7	264.6
Long-term borrowings Note E	215.7	194.1
Long-term pension and other liabilities	34.3	49.1
Deferred income taxes Note F	55.1	39.4
Total manufacturing liabilities	534.8	547.2

Financial services activities Borrowings Note E	178.4	201.3
Total liabilities	713.2	748.5
Shareholders equity Notes I and J		
Common stock, $1 par value per share, 90.0 million shares authorized, 48.6 million and 48.4 million shares issued, respectively	48.6	48.4
Capital in excess of par value	94.4	91.9
Retained earnings Note E	295.8	317.4
Treasury stock, .4 million and .5 million shares, respectively, at cost	(13.6)	(14.8)
Deferred stock awards	(3.1)	(2.3)
Accumulated other comprehensive income (loss)		
Foreign currency translation	3.1	(3.7)
Net derivative loss, cash flow hedges	1.7	(.2)
Minimum pension liability	(14.2)	(14.2)
Total	(9.4)	(18.1)
Total shareholders equity	412.7	422.5
Total liabilities and shareholders equity	$ 1,125.9	$ 1,171.0

See notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2004	2003	2002
	($ in millions, except per share data)		
Net sales	$ 1,139.0	$ 1,150.7	$ 1,001.6
Costs and expenses			
Cost of sales	(895.7)	(849.8)	(719.2)
Selling, general and administrative	(228.4)	(234.4)	(205.1)
Restructuring charges	(15.4)	(4.8)	
Operating income (loss)	(.5)	61.7	77.3
Interest expense	(20.8)	(19.4)	(19.8)
Other expense, net	(4.0)	(.3)	(.6)
Income (loss) before income taxes	(25.3)	42.0	56.9
Income taxes Note F	12.6	(6.9)	(13.4)
Income (loss) from continuing operations	(12.7)	35.1	43.5
Discontinued operations Note L:			
Income from operations, net of taxes of $2.2 million, $1.4 million and $1.4 million, respectively	3.7	2.6	2.7
Gain (loss) on dispositions, net of taxes (benefit) of $7.9 million and $(.2) million, respectively	6.7	(.4)	
Cumulative effect of change in accounting, net of taxes			(8.0)
Net income (loss)	$ (2.3)	$ 37.3	$ 38.2
Basic and diluted income (loss) per share			
Income (loss) from continuing operations	$ (.26)	$ .73	$ .95
Discontinued operations:			
Income from operations, net of taxes	.08	.05	.06
Gain (loss) on dispositions, net of taxes	.14	(.01)	
Cumulative effect of change in accounting, net of taxes			(.17)
Net income (loss)*	$ (.05)	$ .78	$ .83

* amounts may not add to total due to rounding

See notes to consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Deferred Stock Awards	Accumulated Other Comprehensive Loss	Total
				($ in millions)			
Balance at December 31, 2001	$ 47.4	$ 73.2	$ 312.2	$ (45.5)	$ (2.2)	$ (25.7)	$ 359.4
Comprehensive income:							
Net income			38.2				38.2
Foreign currency translation						7.6	7.6
Unrealized losses on derivatives, net of $1.2 million tax benefit						(2.1)	(2.1)
Minimum pension liability, net of $8.1 million tax benefit						(13.8)	(13.8)
Comprehensive income							29.9
Issuance of stock for purchase of companies	.8	12.8		29.9			43.5
Cash dividends declared			(36.7)				(36.7)
Compensation plans:							
Exercise of stock options	.2	4.0		(1.3)			2.9
Stock awards granted	.1	2.4			(2.5)		
Related tax benefits		.1					.1
Amortization of deferred stock awards					1.5		1.5
Treasury stock:							
Issuance				1.9			1.9
Purchases				(4.4)			(4.4)
Retirement	(.1)	(1.4)		1.5			
Other				(.1)			(.1)
Balance at December 31, 2002	48.4	91.1	313.7	(18.0)	(3.2)	(34.0)	398.0
Comprehensive income:							
Net income			37.3				37.3
Foreign currency translation						14.4	14.4
Unrealized gains on derivatives, net of $1.1 million tax expense						1.9	1.9
Minimum pension liability, net of $.2 million tax benefit						(.4)	(.4)
Comprehensive income							53.2
Cash dividends declared			(33.6)				(33.6)

Compensation plans:							
Exercise of stock options		.1					.1
Stock awards granted		.8			(.8)		
Related tax benefits		.2					.2
Amortization of deferred stock awards					1.2		1.2
Treasury stock:							
Issuance				3.3			3.3
Purchases				(.1)			(.1)
Retirement		(.2)		.2			
Other		(.1)		(.2)	.5		.2
Balance at December 31, 2003	48.4	91.9	317.4	(14.8)	(2.3)	(18.1)	422.5
Comprehensive income:							
Net loss			(2.3)				(2.3)
Foreign currency translation						6.8	6.8
Unrealized gains on derivatives, net of $1.2 million tax expense						1.9	1.9
Comprehensive income							6.4
Cash dividends declared			(19.3)				(19.3)
Compensation plans:							
Exercise of stock options	.1	.4					.5
Stock awards granted	.2	2.9		.1	(3.2)		
Related tax benefits		.5					.5
Amortization of deferred stock awards					1.0		1.0
Other	(.1)	(1.3)		1.1	1.4		1.1
Balance at December 31, 2004	$ 48.6	$ 94.4	$ 295.8	$ (13.6)	$ (3.1)	$ (9.4)	$ 412.7

See notes to consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2004	**2003**	**2002**
	($ in millions)		
Operating activities			
Net income (loss)	$ (2.3)	$ 37.3	$ 38.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting			8.0
(Gain) loss on disposition of discontinued operations	(6.7)	.4	
Depreciation and amortization	22.4	22.4	22.2
Non-cash restructuring charges	7.1	1.9	
Loss on minority interest divestiture	2.9		
Provision for doubtful accounts	3.3	3.2	1.7
Deferred income taxes	13.8	5.0	2.4
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions of companies			
Accounts receivable	(14.5)	(5.6)	(5.1)
Inventories	(6.1)	6.8	(2.1)
Other current assets	3.0	1.4	(4.2)
Lease financing and other receivables	31.0	(5.1)	13.7
Accounts payable	2.5	1.9	12.1
Customer deposits	3.4	(9.6)	9.5
Accrued liabilities	7.7	4.8	
Income taxes	(19.5)	(.1)	3.4
Other	4.5	5.6	2.3
Net cash provided by operating activities	52.5	70.3	102.1
Investing activities			
Purchases of properties and equipment	(20.5)	(16.8)	(18.8)
Payments for purchases of companies, net of cash acquired, excludes $43.5 million of common stock issued in 2002			(48.1)
Proceeds from sales of discontinued operations	49.1	7.5	
Other, net	5.5	(.8)	(4.1)
Net cash provided by (used for) investing activities	34.1	(10.1)	(71.0)
Financing activities			
Reduction in short-term borrowings, net	(36.3)	(68.2)	(98.3)
Proceeds from issuance of long-term borrowings		46.0	97.2
Repayment of long-term borrowings	(26.1)		
Purchases of treasury stock		(.1)	(4.4)
Cash dividends paid to shareholders	(19.3)	(38.3)	(36.0)
Other, net		.7	3.3

Net cash used for financing activities	(81.7)	(59.9)	(38.2)
Increase (decrease) in cash and cash equivalents	4.9	.3	(7.1)
Cash and cash equivalents at beginning of year	10.0	9.7	16.8
Cash and cash equivalents at end of year	$ 14.9	$ 10.0	$ 9.7

See notes to consolidated financial statements.

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FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
($ in millions, except per share data)

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation: The consolidated financial statements include the accounts of Federal Signal Corporation and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Change in presentation of cash flows from lease financing and other receivables: In 2004, the company began classifying all cash flows from lease financing and other receivables as part of its operating activities. Cash flows from operating activities for the years ended December 31, 2003 and 2002 in the consolidated statement of cash flows have been revised to include changes in lease financing and other receivables which have been reclassified to conform to the 2004 presentation. Management decided to adopt the above-described method as a result of concerns raised by staff of the Securities and Exchange Commission regarding the company s previous presentation. The company s presentation of cash flows in previously issued financial statements reflected the following:

Financial services revenues were recorded as a component of net income which is included in cash flows from operating activities.

Principal extensions and principal collections under lease financing agreements were each included in cash flows from investing activities; no cash was received by the company on a consolidated basis when a sale, recognized as a sales-type lease, was made to a customer.

The consolidated statement of cash flows has been adjusted to reflect the fact that there is no cash received by the consolidated entity upon the initial sale of inventory recognized as a sales-type lease and to properly classify cash receipts from the sale of inventory as operating activities.

A reconciliation of amounts previously reported in the consolidated statement of cash flows to the amounts in the current presentation follows:

	2003	**2002**
Net cash provided by operating activities		
Previously reported	$ 75.4	$ 88.4
Change in operating asset Lease financing and other receivables	(5.1)	13.7
Currently reported	$ 70.3	$ 102.1
Net cash used for investing activities		
Previously reported	$ (15.2)	$ (57.3)
Amounts previously included and now reclassified to operating activities		
Principal extensions under lease financing agreements	167.1	155.3
Principal collections under lease financing agreements	(162.0)	(169.0)
Change in operating asset Lease financing and other receivables	5.1	(13.7)
Currently reported	$ (10.1)	$ (71.0)

Cash equivalents: The company considers all highly liquid investments with a maturity of three-months or less, when purchased, to be cash equivalents.

Accounts receivable and allowances for doubtful accounts: A receivable is considered past due if payments have not been received within agreed upon invoice terms. The company s policy is generally to not charge interest on trade

receivables after the invoice becomes past due. The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments

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

on the outstanding accounts receivable and outstanding lease financing and other receivables. The allowances are each maintained at a level considered appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses; portfolio credit quality; and current and projected economic and market conditions. If the financial condition of the company s customers were to deteriorate, resulting in an impairment of the ability to make payments, additional allowances may be required.

Inventories: Inventories are stated at the lower of cost or market. At December 31, 2004 and 2003, approximately 49% and 54% of the company s inventories are costed using the FIFO (first-in, first-out) method, respectively. The remaining portion of the company s inventories is costed using the LIFO (last-in, first-out) method.

Properties and depreciation: Properties and equipment are stated at cost. Depreciation, for financial reporting purposes, is computed principally on the straight-line method over the estimated useful lives of the assets. Property, plant and equipment and other long-term assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve significant judgment.

Intangible assets: Intangible assets principally consist of costs in excess of fair values of net assets acquired in purchase transactions. These assets are assessed yearly for impairment at the beginning of the fourth quarter and also between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Stock-based compensation plans: The company has two stock-based compensation plans, which are described more fully in Note I. The company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. Stock compensation expense reflected in net income relates to restricted stock awards which vest over four years. With regard to stock options granted, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock at the date of grant.

The weighted average fair value per share of options granted was $5.96 in 2004, $2.97 in 2003 and $4.52 in 2002. The fair value of options was estimated at the grant date using a Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rates of 3.5% in 2004, 3.6% in 2003 and 2.7% in 2002; dividend yield of 2.1% in 2004, 4.5% in 2003 and 4.1% in 2002; market volatility of the company s common stock of .32 in 2004 and .28 in 2003 and 2002; and a weighted average expected life of the options of approximately 8 years for 2004, 2003 and 2002.

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

The following table illustrates the effect on net income and earnings per share for the three-year period ended December 31, 2004 if the company had applied fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , to all stock-based employee compensation. For purposes of pro forma disclosure, the estimated fair value of the options using a Black-Scholes option pricing model is amortized to expense over the option s vesting period.

	2004	2003	2002
Reported net income (loss)	$ (2.3)	$ 37.3	$ 38.2
Add: Stock-based employee compensation expense included in reported net income (loss) net of related tax effects	.6	.7	1.0
Deduct: Total stock-based employee compensation expense determined under the fair-value method for all awards, net of related tax effects	(2.3)	(1.5)	(2.1)
Pro forma net income (loss)	$ (4.0)	$ 36.5	$ 37.1
Basic and diluted net income (loss) per common share			
Reported net income (loss)	$ (.05)	$ .78	$ .83
Pro forma net income (loss)	$ (.08)	$ .76	$ .81

The intent of the Black-Scholes option valuation model is to provide estimates of fair values of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the use of highly subjective assumptions including expected stock price volatility. The company has utilized the Black-Scholes method to produce the pro forma disclosures required under SFAS Nos. 123 and 148. In management s opinion, existing valuation models do not necessarily provide a reliable single measure of the fair value of its employee stock options because the company s employee stock options have significantly different characteristics from those of traded options and the assumptions used in applying option valuation methodologies, including the Black-Scholes model, are highly subjective.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Warranty: Sales of many of the company s products carry express warranties based on the terms that are generally accepted in the company s marketplaces. The company records provisions for estimated warranty at the time of sale based on historical experience and periodically adjusts these provisions to reflect actual experience. Infrequently, a material warranty issue can arise which is beyond the scope of the company s historical experience. The company provides for these issues as they become probable and estimable.

Product liability and workers compensation liability: Due to the nature of the company s products, the company is subject to claims for product liability and workers compensation in the normal course of business. The company is self-insured for a portion of these claims. The company establishes a liability using a third-party actuary for any known outstanding matters, including a reserve for claims incurred but not yet reported.

Financial instruments: The company enters into agreements (derivative financial instruments) to manage the risks associated with interest rates and foreign exchange rates. The company does not actively trade such instruments nor enter into such agreements for speculative purposes. The company principally utilizes two types of derivative financial instruments: 1) interest rate swaps to manage its interest rate risk, and 2) foreign currency forward exchange and option contracts to manage risks associated with sales and expenses (forecast or committed) denominated in

foreign currencies.

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

On the date a derivative contract is entered into, the company designates the derivative as one of the following types of hedging instruments and accounts for the derivative as follows:

Fair value hedge: A hedge of a recognized asset or liability or an unrecognized firm commitment is declared as a fair value hedge. For fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings and reported in the consolidated statements of income on the same line as the hedged item.

Cash flow hedge: A hedge of a forecast transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is declared as a cash flow hedge. The effective portion of the change in the fair value of a derivative that is declared as a cash flow hedge is recorded in accumulated other comprehensive income. When the hedged item impacts the income statement, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated statements of income as the hedged item. In addition, both the fair value of changes excluded from the company s effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in selling, general and administrative expenses in the consolidated statements of income.

The company formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded in the consolidated balance sheets at fair value in other assets and other liabilities. This process includes linking derivatives that are designated as hedges of specific forecast transactions. The company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the company discontinues hedge accounting, and any deferred gains or losses are recorded in selling, general and administrative expenses. Amounts related to terminated interest rate swaps are deferred and amortized as an adjustment to interest expense over the original period of interest exposure, provided the designated liability continues to exist or is probable of occurring.

Revenue recognition: The company recognizes sales when all of the following are satisfied: persuasive evidence of an arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and delivery has occurred or services have been rendered. In most instances, this occurs at the time that title passes to the customer based on the respective sales agreement. Infrequently, a sales contract qualifies for percentage of completion or for multiple-element accounting. For percentage of completion revenues, the company utilizes the cost-to-cost method. At the inception of a sales-type lease, the company records the product sales price and related costs and expenses of the sale. Financing revenues are included in income over the life of the lease. Management believes that all relevant criteria and conditions are considered when recognizing revenues.

Product shipping costs: Product shipping costs are expensed as incurred and are included in cost of sales.

Income per share: Basic net income per share is calculated using income available to common shareholders (net income) divided by the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated in the same manner except that the denominator is increased to include the weighted number of additional shares that would have been outstanding had dilutive stock option shares been actually issued. The company uses the treasury stock method to calculate dilutive shares. See Note P for the calculation of basic and diluted net income per share.

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

NOTE B INVENTORIES

Inventories at December 31 are summarized as follows:

	2004	2003
Finished goods	$ 49.0	$ 48.9
Work in process	50.8	60.4
Raw materials	78.4	63.2
Total inventories	$ 178.2	$ 172.5

If the company had used the first-in, first-out cost method exclusively, which approximates replacement cost, inventories would have aggregated $189.9 million and $180.2 million at December 31, 2004 and 2003, respectively.

NOTE C PROPERTIES AND EQUIPMENT

Properties and equipment at December 31 are summarized as follows:

	2004	2003
Land	$ 9.2	$ 9.5
Buildings and improvements	62.0	58.7
Machinery and equipment	233.9	226.6
Accumulated depreciation	(194.2)	(176.1)
Total properties and equipment	$ 110.9	$ 118.7

NOTE D LEASE FINANCING AND OTHER RECEIVABLES

As an added service to its customers, the company is engaged in financial services activities. These activities primarily consist of providing long-term financing for certain US customers purchasing vehicle-based products from the company s Environmental Products and Fire Rescue groups. A substantial portion of these receivables is due from municipalities and volunteer fire departments. Financing is provided through sales-type lease contracts with terms that generally range from one to ten years. The amounts recorded as lease financing receivables represent amounts equivalent to normal selling prices less subsequent customer payments.

Leases past due more than 120 days are evaluated and a determination made whether or not to place the lease in a non-accrual status based upon customer payment history and other relevant information at the time of the evaluation.

Lease financing and other receivables will become due as follows: $76.6 million in 2005, $29.5 million in 2006, $23.4 million in 2007, $18.9 million in 2008, $15.6 million in 2009 and $36.4 million thereafter. At December 31, 2004 and 2003, unearned finance revenue on these leases aggregated $24.5 million and $32.1 million, respectively.

NOTE E DEBT

Short-term borrowings at December 31 consisted of the following:

	2004	2003
Revolving credit facility	$ 45.0	$ 75.0
Notes payable	7.4	4.7
Current maturities of long-term debt	18.6	25.2

Total short-term borrowings	$ 71.0	$ 104.9

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

Of the above amounts, $52.1 million and $36.3 million are classified as financial services activities borrowings at December 31, 2004 and 2003, respectively.

In April 2003, Standard and Poor s downgraded the company s debt rating from A-2 to A-3; as a result, the company stopped issuing commercial paper and drew necessary funds on its $300.0 million unsecured revolving bank facility. In June 2003, the company entered into a new $250.0 million unsecured revolving credit facility maturing in November 2006 with a syndicate of banks. The facility replaced the existing $300.0 million credit facility. At December 31, 2003, $75.0 million was outstanding under this agreement bearing interest at a variable rate of LIBOR plus .83%. The facility includes covenants relating to a maximum debt-to-capitalization ratio, minimum net worth and minimum interest coverage ratio.

In June 2004, the company renegotiated its revolving credit facility covenants to exclude restructuring and other one-time charges, to reduce the minimum interest coverage ratio from 3.0 to 2.5 and to voluntarily reduce the size of the credit facility from $250.0 million to $200.0 million. The company s results for the year ended December 31, 2004 were below the minimum interest coverage covenant as of December 31, 2004. The company obtained a temporary waiver of this interest coverage covenant from 2.5 to 1.9 until April 1, 2005. The company was in compliance with all of its covenants, as adjusted, as of December 31, 2004. As of December 31, 2004, $45.0 million was outstanding under this facility bearing interest at a variable rate of LIBOR plus .83%. After year-end, due to reduced borrowing requirements, the company voluntarily reduced its revolving credit line to $150 million, effective January 31, 2005. On March 15, 2005, the company obtained a permanent amendment to the interest coverage covenant. This amendment redefined the coverage ratio and reset the required minimum level to 2.0 for December 31, 2004 to June 30, 2005 and 2.5 for September 30, 2005 and thereafter. The company was in compliance with the amended covenant at December 31, 2004 and expects to remain in compliance with its covenants.

Weighted average interest rates on short-term borrowings were 3.28% and 2.17% at December 31, 2004 and 2003, respectively.

Long-term borrowings at December 31 consisted of the following:

	2004	2003
Unsecured borrowings:		
6.79% note due in annual installments of $10.0 million due 2007-2011	$ 50.0	$ 50.0
6.37% note due in annual installments of $10.0 million due 2005-2008	40.0	50.0
6.60% note due in annual installments of $7.1 million due 2005-2011	50.0	50.0
4.93% note due in annual installments of $8.0 million due 2008-2012	40.0	40.0
5.24% note due 2012	60.0	60.0
5.49% note due 2006	65.0	65.0
7.99% note due 2004		15.0
Floating rate (3.59% and 2.21% at December 31, 2004 and 2003, respectively) note due 2008-2013	50.0	50.0
Other	3.6	.6
	358.6	380.6
Fair value of interest rate swaps	(6.7)	(7.9)
Unamortized balance of terminated fair value interest rate swaps	8.7	11.6
	360.6	384.3
Less current maturities	(18.6)	(25.2)
Total long-term borrowings	$ 342.0	$ 359.1

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

Of the above amounts, $126.3 million and $165.0 million are classified as financial services activities borrowings at December 31, 2004 and 2003, respectively.

In June 2003, the company entered into a $50.0 million private placement agreement to reduce reliance on short-term debt. The agreement bears interest at a variable rate of LIBOR plus an average of 1.04% with $20.0 million maturing in 2008, $20.0 million in 2010 and $10.0 million in 2013.

Aggregate maturities of long-term debt amount to approximately $18.6 million in 2005, $83.6 million in 2006, $27.8 million in 2007, $55.2 million in 2008, $25.1 million in 2009 and $148.3 million thereafter. The fair values of these borrowings aggregated $360.3 million and $389.6 million at December 31, 2004 and 2003, respectively.

For each of the above long-term notes, significant covenants consist of a maximum debt-to-capitalization ratio and minimum net worth. At December 31, 2004, all of the company s retained earnings were free of any restrictions and the company was in compliance with the financial covenants of its long-term debt agreements.

At December 31, 2004 and 2003, deferred financing fees totaled $1.8 million and $2.3 million, respectively.

The company paid interest of $24.1 million in 2004, $21.3 million in 2003 and $20.7 million in 2002. See Note H regarding the company s utilization of derivative financial instruments relating to outstanding debt.

NOTE F INCOME TAXES

The provisions for income taxes for the three-year period ended December 31, 2004 consisted of the following:

	2004	2003	2002
Current:			
Federal	$ (32.7)	$ (6.0)	$ 4.0
Foreign	6.4	7.0	6.0
State and local	(.1)	.9	1.0
	(26.4)	1.9	11.0
Deferred:			
Federal	15.5	6.2	2.4
Foreign	(1.0)	(.8)	(.7)
State and local	(.7)	(.4)	.7
	13.8	5.0	2.4
Total income taxes	$ (12.6)	$ 6.9	$ 13.4

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

Differences between the statutory federal income tax rate and the effective income tax rate for the three-year period ended December 31, 2004 are summarized below:

	2004	2003	2002
Statutory federal income tax rate	(35.0)%	35.0%	35.0%
State income taxes, net of federal tax benefit	(3.0)	1.4	1.5
Tax-exempt interest	(11.1)	(7.0)	(5.7)
Benefits from shutdown of U.K. facility		(6.7)	
Exports benefit	(4.3)	(2.4)	(1.6)
R&D tax credits	(4.6)	(2.1)	(1.3)
Reduction for prior years taxes	(.6)	.1	(2.3)
Valuation allowances foreign net operating losses	11.3	1.3	.6
Other, net	(2.5)	(3.1)	(2.6)
Effective income tax rate	(49.8)%	16.5%	23.6%

Deferred income tax assets and liabilities at December 31 are summarized as follows:

	2004	2003
Deferred tax assets:		
Accrued expenses	$ 16.9	$ 14.6
Net operating loss, alternative minimum tax, research and development, and foreign tax credit carry forwards	14.5	13.2
Pension liabilities		5.7
Other	2.6	.9
Gross deferred tax assets	34.0	34.4
Valuation allowance	(7.5)	(8.1)
Total deferred tax assets	26.5	26.3
Deferred tax liabilities:		
Depreciation and amortization	(49.6)	(44.1)
Revenue recognition	(2.6)	(3.7)
Pension liabilities	(3.5)	
Undistributed earnings of non-US subsidiary	(5.6)	(5.0)
Gross deferred tax liabilities	(61.3)	(52.8)
Net deferred tax liability	$ (34.8)	$ (26.5)

On October 22, 2004, the American Jobs Creation Act was signed into law. One provision of the legislation allows for repatriated foreign earnings, after meeting certain thresholds, to be taxed at 5.25%. The company may elect to

avail itself of this legislation, and is in the process of evaluating the effects of this repatriation provision. The company expects to complete its evaluation within a reasonable period of time once clarifying language has been issued by Congress and the Internal Revenue Service. The range of possible dividend amounts that may qualify under this legislation is between zero and $104.0 million. The related range of potential income tax provision required is between zero and $6.0 million.

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

Federal and state income taxes have not been provided on accumulated undistributed earnings of certain foreign subsidiaries aggregating approximately $88 million at December 31, 2004, as such earnings have been reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

The company incurred a domestic tax loss in 2004 estimated at $6.0 million which may be carried forward for 20 years expiring in 2024.

The company has the following estimated credit carry forwards and expiration dates:

Credit Carryforward	Amount	Expiration
Research & development	$ 3.9	2022 2024
Alternative minimum tax	1.6	None
Foreign tax credit	1.3	2013
Total	$ 6.8	

The tax effect of foreign net operating losses in deferred tax assets expire as follows:

Country	Amount	Expiration
Canada	$ 3.7	Over 90% in 2014
All other	3.0	None
Total	$ 6.7	

The company has a net valuation allowance of $6.5 million for the above net operating losses and foreign tax credits.

The company also has state net operating loss carryforwards of $25.0 million, a majority of which expires in 2016. The approximate value of these carryforwards is $1.1 million for which a valuation allowance of $1.0 million is recorded.

The net deferred tax liability at December 31 is classified in the balance sheet as follows:

	2004	2003
Current net deferred tax assets	$ 20.3	$ 12.9
Long-term net deferred tax liability	(55.1)	(39.4)
	$ (34.8)	$ (26.5)

The company paid income taxes of $6.3 million in 2004, $9.7 million in 2003 and $8.7 million in 2002.

Income from continuing operations before taxes for the three-year period ended December 31, 2004 consisted of the following:

	2004	2003	2002

United States	$ (31.8)	$ 23.4	$ 40.7
Non-US	6.5	18.6	16.2
	$ (25.3)	$ 42.0	$ 56.9

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

NOTE G POSTRETIREMENT BENEFITS

The company and its subsidiaries sponsor a number of defined benefit retirement plans in the US covering certain of its salaried and hourly employees. Benefits under these plans are primarily based on final average compensation and years of service as defined within the provisions of the individual plans. The company also participates in several retirement plans that provide defined benefits to employees under certain collective bargaining agreements.

Through 2002, a wholly-owned subsidiary sponsored a defined benefit plan for substantially all of its employees in the United Kingdom (non-US benefit plan). Benefits under this plan were based on final compensation and years of service as defined within the provisions of the plan. Effective December 31, 2002, the company curtailed the plan to reduce its cost structure. The curtailment froze each employee s benefits, to be adjusted for inflation.

The company uses December 31 and September 30 measurement dates for its US and non-US benefit plans, respectively.

The components of net periodic pension expense for the three-year period ended December 31, 2004 are summarized as follows:

	US Benefit Plans			Non-US Benefit Plan		
	2004	2003	2002	2004	2003	2002
Company-sponsored plans						
Service cost	$ 4.6	$ 4.1	$ 3.3	$ .2	$ .2	$ .5
Interest cost	7.7	7.1	5.4	2.6	2.2	2.1
Expected return on plan assets	(8.2)	(7.8)	(7.1)	(3.2)	(2.7)	(2.7)
Amortization of transition amount	(.2)	(.2)	(.2)			
Other	1.6	.9	.1	.9	.8	.3
	5.5	4.1	1.5	.5	.5	.2
Multiemployer plans	.2	.2	.4			
Net periodic pension expense	$ 5.7	$ 4.3	$ 1.9	$ .5	$ .5	$ .2

The following table summarizes the weighted-average assumptions used in determining pension costs for the three-year period ended December 31, 2004:

	US Benefit Plans			Non-US Benefit Plan		
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.75%	7.30%	5.50%	5.50%	6.25%
Rate of increase in compensation levels	3.50%	3.50%	3.50%	NA*	2.50%	2.50%
Expected long term rate of return on plan assets	9.00%	9.00%	9.50%	8.30%	8.00%	8.00%

* Non-US plan benefits are no longer adjusted for compensation level changes

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

The following summarizes the changes in the projected benefit obligation and plan assets, the funded status of the company-sponsored plans and the major assumptions used to determine these amounts at December 31:

	US Benefit Plans		Non-US Benefit Plan	
	2004	2003	2004	2003
Projected benefit obligation at beginning of year	$ 120.9	$ 106.0	$ 46.3	$ 40.9
Service cost	4.6	4.1	.2	.2
Interest cost	7.7	7.1	2.6	2.2
Actuarial loss (gain)	4.4	6.9	(1.5)	2.4
Benefits paid	(3.4)	(3.2)	(2.1)	(1.9)
Increase due to translation			3.8	2.5
Projected benefit obligation at end of year	$ 134.2	$ 120.9	$ 49.3	$ 46.3
Accumulated benefit obligation at end of year	$ 117.6	$ 105.6	$ 49.3	$ 46.3
Fair value of plan assets at beginning of year	$ 88.6	$ 74.1	$ 38.2	$ 34.1
Actual return on plan assets	8.6	13.9	3.6	3.6
Company contribution	8.8	3.8	.8	.4
Benefits and expenses paid	(3.4)	(3.2)	(2.3)	(2.1)
Increase due to translation			3.2	2.1
Fair value of plan assets at end of year	$ 102.6	$ 88.6	$ 43.5	$ 38.1
Funded status of plan at end of year	$ (31.6)	$ (32.3)	$ (5.8)	$ (8.2)
Unrecognized actuarial loss	39.2	36.2	13.5	14.8
Unrecognized prior service cost	1.7	1.9		
Unrecognized net transition obligation	(.1)	.1		
Net amount recognized as prepaid benefit cost in the balance sheet	$ 9.2	$ 5.9	$ 7.7	$ 6.6
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	$ 9.2	$ 14.3	$ 7.7	$ 6.6
Accrued benefit liability	(24.2)	(32.8)		
Intangible asset	1.7	1.9		
Accumulated other comprehensive income, pre-tax	22.5	22.5		
Net amount recognized	$ 9.2	$ 5.9	$ 7.7	$ 6.6

The following table summarizes the weighted-average assumptions used in determining benefit obligations as of December 31, 2004 and 2003:

	US Benefit Plans		**Non-US Benefit Plan**	
	2004	**2003**	**2004**	**2003**
Discount rate	6.00%	6.25%	5.75%	5.50%
Rate of increase in compensation levels	3.50%	3.50%		
Expected long-term rate of return on plan assets	9.00%	9.00%	8.30%	8.00%

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

The following table summarizes the company s asset allocations for its benefits plans as of December 31, 2004 and 2003 and the target allocation for 2005 by asset category:

	US Benefit Plans			Non-US Benefit Plan		
	Percentage of Plan Assets as of December 31,		Target Allocation	Percentage of Plan Assets as of September 30,		Target Allocation
	2004	2003	2005	2004	2003	2005
Equity securities	77%	80%	75%	57%	36%	60%
Fixed income securities	23%	20%	25%	42%	54%	40%
Cash				1%	10%	
Total	100%	100%	100%	100%	100%	100%

The investment strategy for the US benefit plans is to 1) maintain a liquid, diversified portfolio that can provide a weighted-average target return of 9% or more, 2) maintain liquidity to meet obligations and 3) prudently manage administrative and management costs. The plan invests in equity and fixed income instruments. The equity allocation has an upper limit of 80% of plan assets with US equities comprising 50% to 80% while company stock may comprise up to 10%. The fixed income allocation has an upper limit 40% of plan assets with US high grade fixed income securities comprising 15% to 40%; US high yield fixed income investments may comprise up to 15% of plan assets. The use of derivatives is allowed in limited circumstances. The plan held no derivatives during the years ended December 31, 2004 and 2003.

As of December 31, 2004 and 2003, equity securities included .3 million and .5 million shares of the company s common stock valued at $6.0 million and $8.8 million, respectively. Dividends paid on the company s common stock to the pension trusts aggregated $.2 million and $.4 million for each of the years ended December 31, 2004 and 2003, respectively.

Plan assets for the non-US benefit plans consist principally of a diversified portfolio of equity securities, U.K. government obligations and fixed interest securities.

The company expects to contribute $5.0 million or more to the US benefit plans in 2005. Contributions to the plans will be based on such factors as annual service cost as well as impacts to plan asset values, interest rate movements and benefit payments.

The following table presents the benefits expected to be paid under the company s defined benefit plans in each of the next five years, and in aggregate for the five years thereafter:

	US Benefit Plans	Non-US Benefit Plan
2005	$ 3.6	$ 2.3
2006	3.9	2.4
2007	4.2	2.5
2008	4.7	2.7

2009		5.2		2.8
2010-2014		37.3		17.1
	$	58.9	$	29.8

The company also sponsors a number of defined contribution pension plans covering a majority of its employees. Participation in the plans is at each employee s election. Company contributions to these plans are based on a percentage of employee contributions. The cost of these plans, including the plans of companies

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

acquired during the three-year period ended December 31, 2004, was $6.0 million in 2004, $5.2 million in 2003 and $5.4 million in 2002.

Prior to September 30, 2003, the company also provided medical benefits to certain eligible retired employees. These benefits were funded when the claims were incurred. Participants generally became eligible for these benefits at age 60 after completing at least fifteen years of service. The plan provided for the payment of specified percentages of medical expenses reduced by any deductible and payments made by other primary group coverage and government programs. Effective September 30, 2003, the company amended the retiree medical plan that effectively canceled coverage for all eligible active employees except for retirees and a limited group that qualified under a formula based on age and years of service. Accumulated postretirement benefit liabilities of $4.3 million and $4.8 million at December 31, 2004 and 2003, respectively, were fully accrued. The net periodic postretirement benefit costs have not been significant during the three-year period ended December 31, 2004.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) became law. The Act introduced a prescription drug benefit under Medicare and a federal subsidy to sponsors of certain retiree health care benefit plans. The Act did not have a material impact on the company s accumulated postretirement obligations, results of operations or cash flows.

NOTE H DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments are reported on the balance sheet at their respective fair values. Changes in fair value are recognized either in earnings or equity, depending on the nature of the underlying exposure being hedged and how effective a derivative is at offsetting price movements in the underlying exposure. All of the company s derivative positions existing at December 31, 2004 qualified for hedge accounting under SFAS No. 133. Derivatives documentation policies comply with the standard s requirements.

To manage interest costs, the company utilizes interest rate swaps in combination with its funded debt. On balance, interest rate swaps executed in conjunction with long-term private placements effectively converted fixed rate debt to variable rate debt. At December 31, 2004, the company s receive fixed, pay variable swap agreements with financial institutions terminate in varying amounts between 2005 to 2012. These agreements are designated as fair value hedges.

At December 31, 2004, the company was also party to interest rate swap agreements with financial institutions in which the company pays interest at a fixed rate and receives interest at variable LIBOR rates. These derivative instruments terminate in varying amounts between 2005 to 2010. These interest rate swap agreements are designated as cash flow hedges.

The fair values of interest rate swaps are based on quotes from financial institutions. The following table summarizes the company s interest rate swaps at December 31, 2004 and 2003:

	Fair Value Swaps		Cash Flow Swaps	
	2004	**2003**	**2004**	**2003**
Notional amount	$ 220.0	$ 285.0	$ 85.0	$ 115.0
Fair value	(6.7)	(7.9)	.8	(1.5)
Average pay rate	5.5%	3.9%	4.4%	4.3%
Average receive rate	6.0%	6.0%	2.5%	1.2%

The company cancelled various interest rate swaps associated with its debt portfolio in response to movements in the interest rate market. These transactions resulted in a cash payment of $.5 million in 2004 and cash receipts of $7.2 million in 2003 and $4.6 million in 2002. The associated gains were deferred and are

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

being amortized as a reduction to interest expense over the life of the underlying debt. The unamortized balance of these gains at December 31, 2004 and 2003 was $9.8 million and $13.0 million, respectively.

The company designates foreign currency forward exchange contracts as fair value hedges to protect against the variability in exchange rates on short-term intercompany borrowings and firm commitments denominated in foreign currencies. These derivative instruments mature in 2005.

The company also manages the volatility of cash flows caused by fluctuations in currency rates by entering into foreign exchange forward contracts and options. These derivative instruments hedge portions of the company s anticipated third-party purchases and forecasted intercompany sales denominated in foreign currencies and mature from 2005 to 2006.

The following table summarizes the company s foreign exchange contracts at December 31, 2004 and 2003:

	2004		2003	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value forwards	$ 9.9	$ (.1)	$ 22.0	$ .3
Cash flow forwards	24.9	2.6	37.4	2.2
Options	25.1	.4		
Total	$ 59.9	$ 2.9	$ 59.4	$ 2.5

The company expects $1.6 million of net gains that are reported in accumulated other comprehensive income as of December 31, 2004 to be reclassified into earnings in 2005 as the respective hedged transactions will affect 2005 earnings.

NOTE I STOCK-BASED COMPENSATION

The company s stock benefit plans, approved by the company s shareholders, authorize the grant of benefit shares or units to key employees and directors. The plan approved in 1988 authorized, until May 1998, the grant of up to 2.7 million benefit shares or units (as adjusted for subsequent stock splits and dividends).

The plan approved in 1996 and amended in 1999 and 2003 authorized the grant of up to 4.0 million benefit shares or units until April 2006. These share or unit amounts exclude amounts that were issued under predecessor plans. Benefit shares or units include incentive and non-incentive stock options, stock awards and other stock units. The plan approved in December 2001 authorized the grant of up to 1.0 million benefit shares until December 2011. No grants were made under this plan and the plan was canceled in July 2002.

Stock options are primarily granted at the fair market value of the shares on the date of grant and normally become exercisable one year after grant at a rate of one-half annually and are exercisable in full on the second anniversary date. All options and rights must be exercised within ten years from date of grant. At the company s discretion, vested stock option holders are permitted to elect an alternative settlement method in lieu of purchasing common stock at the option price. The alternative settlement method permits the employee to receive, without payment to the company, cash, shares of common stock or a combination thereof equal to the excess of market value of common stock over the option purchase price. The company intends to settle all such options in common stock.

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

Stock option activity for the three-year period ended December 31, 2004 was as follows:

	Option Shares			Weighted Average Price per Share ($)		
	2004	2003	2002	2004	2003	2002
	(in millions)					
Outstanding at beginning of year	2.4	2.2	2.3	20.06	21.33	20.86
Granted	.5	.5	.2	18.74	15.37	22.84
Cancelled or expired	(.2)	(.3)	(.1)	20.14	20.92	21.87
Exercised	(.1)		(.2)	15.65	18.84	18.09
Outstanding at end of year	2.6	2.4	2.2	19.84	20.06	21.33
Exercisable at end of year	1.8	1.5	1.5	20.70	21.25	21.28

The following table summarizes information concerning stock options outstanding as of December 31, 2004 under all plans:

	Options Remaining			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(in millions)	(in years)		(in millions)	
$14.01 - $16.00	.3	8.4	$ 14.98	.1	$ 14.45
16.01 - 18.00	.4	6.9	16.30	.2	16.16
18.01 - 20.00	.5	9.0	18.83	.2	18.92
20.01 - 22.00	.7	4.7	21.08	.7	21.04
22.01 - 24.00	.5	4.4	23.44	.4	23.53
24.01 - 26.00	.2	2.2	24.93	.2	24.80
	2.6	6.1	$ 19.84	1.8	$ 20.70

Stock award shares are granted to employees at no cost. Awards primarily vest at the rate of 25% annually commencing one year from the date of award, provided the recipient is still employed by the company on the vesting date. The cost of stock awards, based on the fair market value at the date of grant, is being charged to expense over the four-year vesting period. The following table summarizes stock award grants for the three-year period ended December 31, 2004:

	2004	2003	2002
Number of shares granted (in millions)	.2	.0	.1
Fair value of shares granted	$ 3.2	$ .8	$ 2.5
Weighted average fair value per share	$ 19.19	$ 15.81	$ 22.73
Compensation expense recorded	$ 1.0	$ 1.2	$ 1.5

Under the 1988 plan, no benefit shares or units were available for future grant during the three-year period ending December 31, 2004. Under the 1996 plan, as amended, the following benefit shares or units were available for future grant: .8 million at December 31, 2004, 1.2 million at December 31, 2003 and .1 million at December 31, 2002.

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

NOTE J SHAREHOLDERS EQUITY

The company s board of directors has the authority to issue 90.0 million shares of common stock at a par value of $1 per share. The holders of common stock (i) may receive dividends subject to all of the rights of the holders of preference stock, (ii) shall be entitled to share ratably upon any liquidation of the company in the assets of the company, if any, remaining after payment in full to the holders of preference stock and (iii) receive one vote for each common share held and shall vote together share for share with the holders of voting shares of preference stock as one class for the election of directors and for all other purposes. The company has 48.6 million and 48.4 million common shares issued as of December 31, 2004 and 2003, respectively. Of those amounts 48.2 million and 47.9 million common shares were outstanding as of December 31, 2004 and 2003, respectively.

The company s board of directors is also authorized to provide for the issuance of .8 million shares of preference stock at a par value of $1 per share. The authority of the board of directors includes, but is not limited to, the determination of the dividend rate, voting rights, conversion and redemption features and liquidation preferences. The company has not issued any preference stock as of December 31, 2004.

In July 1998, the company declared a dividend distribution of one preferred share purchase right on each share of common stock outstanding on and after August 18, 1998. The rights are not exercisable until the rights distribution date, defined as the earlier of: 1) the tenth day following a public announcement that a person or group of affiliated or associated persons acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding common stock or 2) the tenth day following the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 30% or more of such outstanding common shares. Each right, when exercisable, entitles the holder to purchase from the company one one-hundredth of a share of Series A Preferred stock of the company at a price of $100 per one one-hundredth of a preferred share, subject to adjustment. The company is entitled to redeem the rights at $.10 per right, payable in cash or common shares, at any time prior to the expiration of twenty days following the public announcement that a 20% position has been acquired. In the event that the company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power is sold, proper provision will be made so that each holder of a right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of a right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the right. The rights expire on August 18, 2008 unless earlier redeemed by the company. Until exercised, the holder of a right, as such, will have no rights as a shareholder, including, without limitation, the right to vote or to receive dividends.

NOTE K ACQUISITIONS

In September 2002, the company acquired Leach Company (Leach), a leading manufacturer of rear load refuse collection bodies located in Oshkosh, Wisconsin. Leach, whose market strength is primarily in government and municipal markets, utilizes a dealer channel similar to other Environmental Products Group operations. In October 2002, the company also acquired Wittke, Inc. (Wittke), a manufacturer of dynamic truck-mounted refuse collection equipment located in Medicine Hat, Alberta, Canada and Kelowna, British Columbia, Canada. Wittke brand products included front load, side load and automated side load refuse truck bodies. Wittke sold direct to customers at the time of the acquisition, and particularly to private contractors and large waste hauling company market segments. The company acquired Leach and Wittke using a combination of cash and stock totaling $101.3 million. As a result of these 2002 acquisitions, the company recorded $11.5 million of working capital, $19.6 million of fixed and other long-term assets, $5.6 million of intangible assets, $2.3 million of restructuring costs incurred in connection with the shut down of an acquired, non-strategic components facility, $8.1 million of long-term liabilities and $75.0 million of goodwill. The

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

company also assumed $9.8 million in debt. An insignificant portion of the related goodwill is expected to be deductible for tax purposes. In 2003, the company finalized the property, equipment and intangible appraisals and warranty campaigns resulting in an increase to goodwill of $10.0 million. During 2004, the company utilized the restructuring reserve in its disposition of the non-strategic components facility.

The Leach and Wittke acquisitions have been accounted for as purchases. Accordingly, the results of operations of the acquired companies have been included in the consolidated statements of income from the effective dates of the acquisitions. Assuming the Leach and Wittke acquisitions occurred January 1, 2002, the company estimates the following pro forma amounts for the year ended December 31, 2002:

	2002
Net sales	$ 1,119.8
Income from continuing operations	29.4
Net income	24.2
Basic income per share	
Income from continuing operations	$ .64
Net income	.53
Diluted income per share	
Income from continuing operations	$ .64
Net income	.52

NOTE L DISCOUNTINUED OPERATIONS

The following table presents the operating results of the company s discontinued operations for the three-year period ended December 31, 2004:

	2004	2003	2002
Net sales	$ 53.9	$ 69.0	$ 98.8
Costs	48.0	65.0	94.7
Income before income taxes	5.9	4.0	4.1
Income tax expense	2.2	1.4	1.4
Income from discontinued operations	$ 3.7	$ 2.6	$ 2.7

In conjunction with the strategic restructuring initiatives announced in June 2004 (see Note M), the company determined that its investments in Justrite Manufacturing, L.L.C. (Justrite), Technical Tooling, Inc. (TTI) and Plastisol B.V. Holdings (Plastisol) were no longer strategic investments and divested its interests.

In December 2004, the company sold Justrite for $40.1 million in cash resulting in an $11.1 million gain on disposal of discontinued operations for the year ended December 31, 2004. Justrite manufactured hazardous liquid containment products including safety cans and cabinets for flammables and corrosives, specialty containers and drum safety equipment. Revenues amounted to $39.7 million, $35.9 million and $32.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. Income before income taxes totaled $5.0 million, $3.5 million and $3.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. Sale proceeds were used to repay debt.

In October 2004, the company divested TTI for $6.5 million in cash resulting in a $1.4 million gain on disposal of discontinued operations for the year ended December 31, 2004. TTI manufactured a full line of can body-making precision tooling for beverage can producers worldwide. Revenues were $6.5 million, $6.6 mil-

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

lion and $5.6 million for the years ended December 31, 2004, 2003 and 2002, respectively. Operating income before income taxes totaled $1.1 million, $1.0 million and $.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. Sale proceeds were used to repay debt.

In July 2004, the company sold its 54% majority ownership interest in Plastisol to the minority partner for $2.5 million in cash and a $.4 million note receivable resulting in a $5.2 million loss on disposal of discontinued operations for the year ended December 31, 2004. The company acquired its ownership interest in 2001. Plastisol manufactured glass fiber reinforced polyester fire truck cabs and bodies mainly for European and Asian markets. Revenues totaled $7.7 million, $13.6 million and $17.1 million for the years ended December 31, 2004, 2003 and 2002, respectively. Operating losses before income taxes totaled $.1 million, $.7 million and $.5 million for the years ended December 31, 2004, 2003 and 2002, respectively. Sale proceeds were used to repay debt.

In April 2003, the company completed the sale of the Sign Group to a third party for cash of $7.5 million and a $4.0 million note receivable resulting in a $.4 million loss on disposal of discontinued operations for the year ended December 31, 2003. The company incurred an additional $.6 million loss on disposal of discontinued operations for the year ended December 31, 2004, reflecting the resolution of a contingent liability. The Sign Group manufactured illuminated, nonilluminated and electronic advertising sign displays primarily for commercial and industrial markets and contracted to provide maintenance services for the signs it manufactured as well as signs manufactured by others. Revenues for the years ended December 31, 2003 and 2002 were $12.8 million and $43.2 million, respectively. The Sign Group s operations before income taxes were break even for the years ended December 31, 2003 and 2002. The company retained certain assets and liabilities in conjunction with the sale. Sale proceeds were used to repay debt.

As of December 31, 2003, net assets of the company s discontinued operations consisted of $17.8 million of current assets, $6.9 million of properties and equipment, $17.4 million of goodwill, $13.1 million of current liabilities and $6.0 million of long-term liabilities.

NOTE M RESTRUCTURING CHARGES AND ASSET DISPOSITIONS

Restructuring charges

In 2004, the company announced the implementation of a number of initiatives including restructuring of certain of its operations and the dispositions of certain assets. The 2004 restructuring initiatives focused on plant consolidations and product rationalization in order to streamline the company s operations; the actions taken are aimed at improving the profitability of the fire rescue, refuse truck body and European tooling businesses as well as improving the company s overhead cost structure. The asset dispositions consisted of asset sales of certain operations the company considered no longer integral to the long-term strategy of its business. In 2003, the company also effected two plant consolidations to reduce costs of the company s industrial warning and communications business and US tooling business.

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

The following table summarizes the 2004 restructuring actions taken, the pre-tax charges to expense in 2004 and the total charges estimated to be incurred:

Group	Initiative	Pre-Tax Restructuring Charges in 2004		Estimate of Total Charges	
Environmental Products	Closure of the refuse truck production facility in Oshkosh, Wisconsin, and consolidation of production into its facility in Medicine Hat, Alberta; completion expected in first quarter of 2005	$	8.4	$	10.5
Fire Rescue	Closure of the production facilities located in Preble, New York and consolidation of US production of fire rescue vehicles into the Ocala, Florida operations; completion expected in first quarter of 2005		5.4		6.1
Tool	Reducing manufacturing activities relating to tooling products in France and outsourcing production to its Portugal facility; completion expected in the second quarter of 2005		1.2		1.3
Corporate	Planning and organizing restructuring activities		.4		.4
		$	15.4	$	18.3

The company expects to incur the remaining $2.9 million of restructuring charges in 2005.

The following table summarizes the 2003 restructuring actions taken and the pre-tax charges to expense:

Group	Initiative	Pre-Tax Restructuring Charges	
Environmental Products	Ceasing production and sale of certain sweeper products and components and reduction in workforce	$	.6
Safety Products	Closure of a facility in the United Kingdom and reduction of its workforce at two other plants		3.3
Tool	Ceasing the manufacture of tooling products in New York facility and consolidation of production into an Ohio facility		.9

	$	4.8

These initiatives were announced and completed in 2003.

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

The following presents an analysis of the restructuring reserves for the years ended December 31, 2003 and 2004:

	Severance	Asset Impairment	Other	Total
Balance as of January 1, 2003	$	$	$	$
Charges to expense	2.2	1.9	.7	4.8
Cash payments	(2.2)		(.7)	(2.9)
Non-cash activity		(1.9)		(1.9)
Balance as of December 31, 2003				
Charges to expense	6.4	7.1	1.9	15.4
Cash payments	(1.6)		(1.7)	(3.3)
Non-cash activity		(7.1)		(7.1)
Balance as of December 31, 2004	$ 4.8	$	$ .2	$ 5.0

Severance charges in 2003 consist of costs to terminate employees and the ratable recognition of retention bonuses for employees providing service until their termination date. Asset impairment charges consist of net realizable value adjustments to manufacturing equipment located in the United Kingdom.

Severance charges in 2004 consist of termination and benefit costs for direct manufacturing employees involuntarily terminated prior to December 31, 2004. The costs of retention bonuses for employees not severed as of December 31, 2004 are recognized ratably over the future service period. Asset impairment charges include $5.6 million of net realizable value adjustments on real property and manufacturing equipment and the write-off of an intangible asset valued at $1.5 million relating to a tradename that will no longer be used after the consolidation of the refuse businesses.

Asset dispositions

The company completed three asset dispositions during 2004. First, the company sold its 30% minority share in Safety Storage, Inc. (SSI) to the majority shareholder in June 2004 for a nominal amount and, in connection therewith, recorded a $2.9 million loss in the second quarter of 2004. Under the terms of the transaction, the company was released from any future liability arising from a judgment awarded to a third party creditor of SSI. The non-operating loss is included in other expense for the year ended December 31, 2004.

The company also divested a modest amount of operating assets located at a manufacturing facility in Kelowna, British Columbia in July 2004. The net assets, primarily consisting of inventories and manufacturing equipment and property, were sold by the company for approximately net book value.

Finally, the company sold approximately $9.6 million of lease financing assets to an independent party. The financing assets represented amounts due from industrial customers of the company; the company had earlier indicated that it would no longer extend financing to industrial customers. The company received cash for the sale for an amount approximating its net book value at the time of sale. Proceeds from these sales were used to pay down debt.

NOTE N LEGAL PROCEEDINGS

The company is subject to various claims, other pending and possible legal actions for product liability and other damages and other matters arising out of the conduct of the company s business. The company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have a material adverse effect on the company s consolidated financial position or the results of

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

operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the company s results of operations.

The company has been sued in Chicago by firefighters seeking damages claiming that exposure to the company s sirens has impaired their hearing and that the sirens are therefore defective. There are presently 33 cases filed during the period 1999-2004, involving a total of 2,467 plaintiffs pending in the Circuit Court of Cook County, Illinois, sixteen of which have been dismissed. The plaintiffs attorneys have threatened to bring more suits if the company does not settle these cases. The company believes that these product liability suits have no merit and that sirens are necessary in emergency situations and save lives. The discovery phase of the litigation began in 2004; the company is aggressively defending the matters. The company successfully defended approximately 41 similar cases in Philadelphia in 1999 after a series of unanimous jury verdicts in favor of the company.

NOTE O SEGMENT AND RELATED INFORMATION

The company has four continuing operating segments as defined under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information . Business units are organized under each segment because they share certain characteristics, such as technology, marketing and product application, which create long-term synergies. The principal activities of the company s operating segments are as follows:

Environmental Products Environmental Products manufactures a variety of self-propelled street cleaning vehicles, vacuum loader vehicles, municipal catch basin/sewer cleaning vacuum trucks, refuse truck bodies and water blasting equipment. Environmental Products sells primarily to municipal customers, contractors and government customers.

Fire Rescue Fire Rescue manufactures chassis; fire trucks, including Class A pumpers, mini-pumpers and tankers; airport and other rescue vehicles, aerial access platforms and aerial ladder trucks. This group sells primarily to municipal customers, volunteer fire departments and government customers.

Safety Products Safety Products produces a variety of visual and audible warning and signal devices; paging, local signaling, and building security, parking and access control systems and hazardous area lighting. The group s products are sold primarily to industrial, municipal and government customers.

Tool Tool manufactures a variety of consumable tools which include die components for the metal stamping industry, a large selection of precision metal products for nonstamping needs and a line of precision cutting and grooving tools including polycrystalline diamond and cubic boron nitride products for superhard applications. The group s products are sold predominately to industrial customers.

Net sales by operating segment reflect sales of products and services and financial revenues to external customers, as reported in the company s consolidated statements of income. 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, notes and other receivables and fixed assets. The accounting policies of each operating segment are the same as those described in the summary of significant accounting policies.

See Note K for a discussion of the company s acquisition activity during the three-year period ended December 31, 2004.

Revenues attributed to customers located outside of the US aggregated $354.1 million in 2004, $355.2 million in 2003 and $271.4 million in 2002. Sales exported from the US aggregated $108.8 million in 2004, $113.5 million in 2003 and $72.8 million in 2002.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
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The company invests in research to support development of new products and the enhancement of existing products and services. The company believes this investment is important to maintain and/or enhance its leadership position in key markets. Expenditures for research and development by the company were approximately $27.6 million in 2004, $32.5 million in 2003 and $25.6 million in 2002.

A summary of the company s continuing operations by segment for the three-year period ended December 31, 2004 is as follows:

	2004	2003	2002
Net sales			
Environmental Products	$ 367.9	$ 352.9	$ 296.4
Fire Rescue	360.9	402.2	317.1
Safety Products	249.2	242.4	237.4
Tool	161.0	153.2	150.7
Total net sales	$ 1,139.0	$ 1,150.7	$ 1,001.6
Operating income (loss)			
Environmental Products	$ (3.8)	$ 17.7	$ 23.0
Fire Rescue	(23.2)	14.8	11.4
Safety Products	32.9	28.3	37.3
Tool	15.3	14.9	18.0
Corporate expense	(21.7)	(14.0)	(12.4)
Total operating income (loss)	(.5)	61.7	77.3
Interest expense	(20.8)	(19.4)	(19.8)
Other expense	(4.0)	(.3)	(.6)
Income (loss) before income taxes	$ (25.3)	$ 42.0	$ 56.9
Depreciation and amortization			
Environmental Products	$ 6.4	$ 6.8	$ 4.5
Fire Rescue	5.1	4.5	3.9
Safety Products	5.0	5.0	5.5
Tool	7.9	7.3	7.2
Corporate	(2.0)	(1.2)	1.1
Total depreciation and amortization	$ 22.4	$ 22.4	$ 22.2
Identifiable assets			
Manufacturing activities			
Environmental Products	$ 282.2	$ 285.4	$ 286.9
Fire Rescue	232.7	227.3	214.3
Safety Products	213.3	205.2	191.1

Tool	167.2	163.2	165.7
Corporate	34.0	36.8	34.2
Total manufacturing activities	929.4	917.9	892.2
Net assets of discontinued operations		23.0	33.3
Financial services activities			
Environmental Products	41.4	55.4	65.5
Fire Rescue	155.1	174.7	161.2
Total financial services activities	196.5	230.1	226.8
Total identifiable assets	$ 1,125.9	$ 1,171.0	$ 1,152.3

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

	2004	2003	2002
Additions to long-lived assets			
Environmental Products	$ 5.4	$ 23.4	$ 100.9
Fire Rescue	5.5	5.7	4.8
Safety Products	5.1	7.9	4.9
Tool	5.9	5.5	11.4
Corporate	1.7	8.6	2.4
Total additions to long-lived assets	$ 23.6	$ 51.1	$ 124.4

The following table presents financial revenues (included in net sales) by segment for the three-year period ended December 31, 2004 as follows:

	2004	2003	2002
Financial revenues			
Environmental Products	$ 3.6	$ 4.5	$ 6.5
Fire Rescue	8.6	8.9	9.6
Total financial revenues	$ 12.2	$ 13.4	$ 16.1

Due to the nature of the company s customers, a significant portion of the Environmental Products and Fire Rescue financial revenues is exempt from federal income tax.

The segment information provided below is classified based on geographic location of the company s subsidiaries:

	2004	2003	2002
Net sales			
United States	$ 886.5	$ 851.1	$ 803.0
Europe	195.7	193.7	156.4
Canada	44.3	96.4	34.1
Other	12.5	9.5	8.1
	$ 1,139.0	$ 1,150.7	$ 1,001.6
Long-lived assets			
United States	$ 383.2	$ 392.0	$ 388.6
Europe	52.4	49.8	43.0
Canada	72.5	87.2	78.7
Other	.7	1.3	1.2
	$ 508.8	$ 530.3	$ 511.5

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

NOTE P NET INCOME PER SHARE

The following table summarizes the information used in computing basic and diluted income per share for the three-year period ending December 31, 2004:

	2004	2003	2002
Numerator for both basic and diluted income per share computations net income (loss)	$ (2.3)	$ 37.3	$ 38.2
Denominator for basic income per share weighted average shares outstanding	48.1	48.0	45.8
Effect of employee stock options (potential dilutive common shares)			.1
Denominator for diluted income per share adjusted shares	48.1	48.0	45.9

Diluted income per share is calculated by dividing net income by the weighted average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options. As of December 31, 2004, .1 million employee stock options were considered potential dilutive common shares. These stock options, however, are antidilutive due to the net loss for the year ended December 31, 2004. As a result, they are excluded from the denominator for the diluted income per share calculation.

NOTE Q COMMITMENTS, GUARANTEES AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The company leases certain facilities and equipment under operating leases, some of which contain options to renew. Total rental expense on all operating leases was $7.6 million in 2004, $8.7 million in 2003 and $8.5 million in 2002. Sublease income and contingent rentals relating to operating leases were insignificant. At December 31, 2004, minimum future rental commitments under operating leases having noncancelable lease terms in excess of one year aggregated $26.4 million payable as follows: $6.2 million in 2005, $4.8 million in 2006, $3.8 million in 2007, $2.8 million in 2008, $2.3 million in 2009 and $6.5 million thereafter.

At December 31, 2004 and 2003, the company had outstanding standby letters of credit aggregating $36.3 million and $35.5 million, respectively, principally to act as security for retention levels related to casualty insurance policies and to guarantee the performance of subsidiaries that engage in export transactions to foreign governments and municipalities.

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 six months 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 the number of units under warranty from time to time, historical and anticipated rates of warranty claims and costs per claim. The company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the company s warranty liabilities for the years ended December 31, 2004 and 2003 were as follows:

	2004	2003
Balance at January 1	$ 12.7	$ 12.9
Provisions to expense	16.4	16.3
Actual costs incurred	(18.0)	(21.2)
Business acquisitions		4.7
Balance at December 31	$ 11.1	$ 12.7

The 2003 business acquisitions reflect the revised estimate of warranty liabilities relating to the 2002 acquisitions of the refuse truck body businesses. Costs incurred in 2003 include one-time refuse truck body warranty campaign charges.

The company guarantees the debt of a third-party dealer that sells the company s vehicles. The notional amounts of the guaranteed debt as of December 31, 2004 and 2003 totaled $.7 million and $.8 million, respectively. No losses have been incurred as of December 31, 2004. The guarantees expire between 2005 and 2006.

The company also provides residual value guarantees on vehicles sold to certain customers. Proceeds received in excess of the fair value of the guarantee are deferred and amortized into income ratably over the life of the guarantee. These transactions have been recorded as operating leases and liabilities equal to the fair value of the guarantees issued in 2004 were recognized. The notional amounts of the residual value guarantees were $3.4 million and $3.5 million as of December 31, 2004 and 2003, respectively. No losses have been incurred as of December 31, 2004. The guarantees expire between 2005 and 2010.

The following table summarizes the carrying amounts and fair values of the company s financial instruments at December 31:

	2004		2003	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Long-term debt (Note E)	$ 358.6	$ 360.3	$ 380.6	$ 389.6
Fair value swaps (Note H)	220.0	(6.7)	285.0	(7.9)
Cash flow swaps (Note H)	85.0	.8	115.0	(1.5)
Foreign exchange contracts (Note H)	34.8	2.5	59.4	2.5

NOTE R GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations , and No. 142, Goodwill and Other Intangible Assets , effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with these statements. Other intangible assets continue to be amortized over their useful lives. The company adopted SFAS No. 142 effective January 1, 2002 and accordingly discontinued the amortization of goodwill.

As part of the adoption of SFAS No. 142, the company also completed a transitional goodwill impairment test and determined that $8.0 million of goodwill related to a niche Tool Group business was impaired. This amount was recognized in 2002 as a charge to net income resulting from a cumulative effect of a change in accounting. The

company determined the fair value of the reporting unit by calculating the present

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of expected future cash flows. Changes in the carrying amount of goodwill for the year ended December 31, 2004, by operating segment, were as follows:

	Environmental Products	Fire Rescue	Safety Products	Tool	Total
December 31, 2002	$ 130.4	$ 33.5	$ 86.9	$ 81.8	$ 332.6
Adjustments	10.0				10.0
Translation	1.1	4.3	2.4	.2	8.0
December 31, 2003	141.5	37.8	89.3	82.0	350.6
Adjustments	(.9)				(.9)
Translation	.4	1.1	1.4	(.1)	2.8
December 31, 2004	$ 141.0	$ 38.9	$ 90.7	$ 81.9	$ 352.5

The 2003 adjustments reflect the finalization of property, equipment and intangible appraisals and warranty campaigns relating to the 2002 acquisitions of the refuse truck body businesses. The 2004 adjustments consist of the receipt of $.9 million from an escrow account established as part of the acquisitions of the refuse truck body businesses.

Under SFAS No. 142, the company is required to test its goodwill annually for impairment; the company performs this test at the beginning of the fourth quarter. The company performed this test in 2004 and determined that there was no impairment.

The components of the company s other intangible assets are as follows:

		December 31, 2004			December 31, 2003		
	Weighted-Average Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable:							
Developed software	6	$ 13.4	$ (4.7)	$ 8.7	$ 11.1	$ (3.8)	$ 7.3
Patents	5-10	3.9	(2.4)	1.5	3.9	(2.1)	1.8
Customer relationships	20	1.9	(.2)	1.7	1.9	(.1)	1.8
Distribution network	40	1.3	(.1)	1.2	1.3		1.3
Other	3	.4		.4			
Non-amortizable tradenames		1.0		1.0	2.5		2.5
Total		$ 21.9	$ (7.4)	$ 14.5	$ 20.7	$ (6.0)	$ 14.7

The company recorded a $1.5 million impairment charge in 2004 to write off a tradename that will no longer be used after the consolidation of the refuse business in conjunction with the restructuring plan announced in June 2004.

Other intangible assets are included in the consolidated balance sheets within other deferred charges and assets .

Amortization expense for the year ended December 31, 2004 totaled $1.4 million. The company estimates that the aggregate amortization expense will be $2.2 million in 2005, $2.0 million in 2006, $1.6 million in 2007, $1.6 million in 2008, $1.2 million in 2009 and $4.9 million thereafter.

NOTE S NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits to improve financial statement disclosures for defined benefit

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

plans. SFAS No. 132 requires more detailed disclosures about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The disclosures are generally effective for fiscal years ending after December 31, 2003; a six-month delay in the effective date was provided for non-US plans. The company adopted the additional disclosure provisions of SFAS No. 132 for its US plans as of December 31, 2003; SFAS No. 132 was adopted as of December 31, 2004 for the company s non-US plan.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , which amends ARB 43, Chapter 4, Inventory Pricing . SFAS No. 151 clarifies the treatment of abnormal amounts of idle facility expense, freight, handling costs, and wasted materials to be treated as current-period charges. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The company currently applies overhead based upon actual rates excluding the influences of abnormal shutdown periods. Management will further review the implications of SFAS No. 151 to determine what effect, if any, its adoption will have on the company s consolidated results of operations and statement of financial position.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment , which revises SFAS No. 123 and supersedes APB 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value. Using a modified grant-date approach , the fair value of an equity award is estimated on the grant date and recognized over the requisite service period for all awards that vest. If the award does not vest, no compensation cost is recognized. The FASB continues to believe that the fair value of a stock option awarded to an employee generally must be estimated using an option pricing model. The provisions of SFAS No. 123(R) are effective at the beginning of the first interim or annual period beginning after June 15, 2005. Management believes the adoption of SFAS No. 123(R) will have an impact on the company s consolidated results of operations and financial position but has not yet determined whether adoption will result in incremental compensation expense materially different than the amounts disclosed in Note A totaling $1.7 million, $.8 million and $1.1 million for the years ended December 31, 2004, 2003 and 2002, respectively.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets which is effective for fiscal periods beginning after June 15, 2005 with earlier application permitted. The statement eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in APB 29 and replaces it with an exception for exchanges that do not have commercial substance. The company has not completed its evaluation of SFAS No. 153 and has not yet determined whether the statement will have an effect on the company s consolidated results of operations or consolidated financial position.

NOTE T SELECTED QUARTERLY DATA (UNAUDITED)

Effective January 1, 2004, the company began reporting its interim quarterly periods on a 13-week basis ending on a Saturday with the fiscal year ending on December 31. In 2003, the company s interim quarterly periods ended on March 31, June 30, September 30 and December 31 year end. For convenience purposes, the company uses March 31, 2004 , June 30, 2004 , September 30, 2004 and December 31, 2004 to refer

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

to its results of operations for the quarterly periods ended April 3, 2004, July 3, 2004, October 2, 2004 and December 31, 2004, respectively.

	For the Quarterly Period Ended							
	2004				2003			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Net sales	$ 260.4	$ 290.6	$ 268.9	$ 319.1	$ 278.9	$ 297.0	$ 273.9	$ 300.9
Gross margin	62.4	67.0	57.3	56.6	71.7	78.9	74.4	75.9
Income from continuing operations	1.0	(3.3)	(3.7)	(6.7)	6.4	9.1	9.2	10.4
Income from discontinued operations	1.2	1.0	1.1	.4	.1	.8	.7	1.0
Gain (loss) on disposition		(4.4)	(1.3)	12.4		(.4)		
Net income	2.2	(6.7)	(3.9)	6.1	6.5	9.5	9.9	11.4
Per share data diluted:								
Income from continuing operations	.02	(.07)	(.08)	(.14)	.13	.19	.19	.21
Income from discontinued operations	.03	(.07)	(.01)	.27	.01	.01	.02	.02
Net income*	.05	(.14)	(.08)	.13	.14	.20	.21	.24
Dividends paid per share	.10	.10	.10	.10	.20	.20	.20	.20
Market price range per share								
High	20.03	20.56	19.14	19.18	20.38	19.57	20.79	17.95
Low	17.62	16.88	15.75	16.01	13.60	14.27	14.90	13.80

* amounts may not add due to rounding

The company incurred pre-tax restructuring charges (see Note M) as follows:

Period Ending:	**2004**	**2003**
March 31		$ 1.6
June 30	$ 8.0	2.6
September 30	3.0	.4

December 31	4.4	.2

The company recorded a $10.6 million charge in the fourth quarter of 2004 on a large multi-unit, multi-year Netherlands fire rescue equipment contract, resulting from a reassessment of project costs and a reassessment of expected recoveries under supplier contracts.

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Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL SIGNAL CORPORATION

By: /s/ Stephanie K. Kushner

Stephanie K. Kushner
Vice President and Chief Financial Officer
(Principal Financial Officer)

March 18, 2005

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EXHIBIT INDEX

The following exhibits, other than those incorporated by reference, have been included in the Company s Form 10-K filed with the Securities and Exchange Commission. The Company shall furnish copies of these exhibits upon written request to the Corporate Secretary at the address given on the cover page. (* denotes exhibit filed in the Form 10-K filed March 16, 2005)

3. a. Restated Certificate of Incorporation of the Company, filed as Exhibit (3)(a) to the Company s Form 10-K for the year ended December 31, 1996 is incorporated herein by reference.

   b. By-laws of the Company, as amended February 13, 2004, filed as Exhibit 3.b to the Company s Form 10-K for the year ended December 31, 2003 is incorporated herein by reference.

4. a. Rights Agreement dated 7/9/98, filed as Exhibit (4) to the Company s Form 8-A dated July 28, 1998 is incorporated herein by reference.

   b. The Company has no long-term debt agreements for which the related outstanding debt exceeds 10% of consolidated total assets as of December 31, 2004. Copies of debt instruments for which the related debt is less than 10% of consolidated total assets will be furnished to the Commission upon request.

10. a. The 1996 Stock Benefit Plan, as amended April 17, 2003, filed as Exhibit 10(a) to the Company s Form 10-K for the year ended December 31, 2003 is incorporated herein by reference.

   b. Federal Signal Corporation Management Incentive Plan is hereby filed as Exhibit (10)(b).*

   c. Supplemental Pension Plan, filed as Exhibit (10)(c) to the Company s Form 10-K for the year ended December 31, 1995 is incorporated herein by reference.

   d. Executive Disability, Survivor and Retirement Plan, filed as Exhibit (10)(d) to the Company s Form 10-K for the year ended December 31, 1995 is incorporated herein by reference.

   e. Supplemental Savings and Investment Plan, filed as Exhibit (10)(f) to the Company s Form 10-K for the year ended December 31, 1993 is incorporated herein by reference.

   f. Employment Agreement with Robert D. Welding filed as Exhibit 10.f to the Company s Form 10-K for the year ended December 31, 2003 is incorporated herein by reference.

   g. Retirement and Settlement Agreement with Joseph J. Ross filed as Exhibit 10.g to the Company s Form 10-K for the year ended December 31, 2003 is incorporated herein by reference.

   h. Pension Agreement with Stephanie K. Kushner, filed as Exhibit (10)(g) to the Company s Form 10-K for the year ended December 31, 2002 is incorporated herein by reference.

   i. Employment Termination Agreement with Stephanie K. Kushner, filed as Exhibit (10)(h) to the Company s Form 10-K for the year ended December 31, 2002 is incorporated herein by reference.

   j. Severance Policy for Executive Employees is hereby filed as Exhibit (10)(j).*

   k.

Change of Control Agreement with Stephanie K. Kushner, filed as Exhibit (10) (i) to the Company s Form 10-K for the year ended December 31, 2001 is incorporated herein by reference.

l. General Release and Separation Agreement, dated February 29, 2004, with Kim A. Wehrenberg, filed as Exhibit 10 to the Company s Form 10-Q for the quarterly period ended March 31, 2004 is incorporated herein by reference.

m. Form of Executive Change-In-Control Severance Agreement dated July 2004 between Federal Signal Corporation and each of Robert D. Welding, Stephanie K. Kushner, Jennifer L. Sherman, Alexander D. Craig, Kimberly L. Dickens, Mark D. Weber, Stephen C. Buck and Alan G. Ringler, filed as Exhibit 10.1 to the Company s Form 10-Q for the quarterly period ended October 2, 2004 is incorporated herein by reference.

n. Form of Executive Change-In-Control Severance Agreement dated July 2004 between Federal Signal Corporation and Duane A. Doerle, Richard L. Ritz, Karen N. Latham, Paul Brown, John A. DeLeonardis and Matt J. Saviello, filed as Exhibit 10.2 to the Company s Form 10-Q for the quarterly period ended October 2, 2004 is incorporated herein by reference.

o. Director Deferred Compensation Plan, filed as Exhibit (10)(h) to the Company s Form 10-K for the year ended December 31, 1997 is incorporated herein by reference.

p. Broad Based Stock Option Plan, filed as Exhibit (99) to the Company s Form S-8 dated January 31, 2002 is incorporated herein by reference. This plan was terminated on July 18, 2002, and no shares were issued pursuant to this plan.

11. Computation of per share earnings is furnished in Note P of the financial statements contained under Item 8 of this 10-K and thereby incorporated herein by reference.

13. Annual Report to Shareholders for the year ended December 31, 2004. Such report is furnished for the information of the Commission only and is not to be deemed filed as part of this filing.

14. Code of Ethics for CEO and Senior Financial Officers, as amended February 13, 2004, filed as Exhibit 14 to the Company s Form 10-K for the year ended December 31, 2003 is incorporated herein by reference.

21. Subsidiaries of the Company, as filed herein.*

23. Consent of Independent Registered Public Accounting Firm, as filed herein.

31.1 CEO Certification under Section 302 of the Sarbanes-Oxley Act, as filed herein.

31.2 CFO Certification under Section 302 of the Sarbanes-Oxley Act, as filed herein.

32.1 CEO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act, as filed herein.

32.2 CFO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act, as filed herein.