FMC TECHNOLOGIES INC
Form 10-K
February 24, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number 1-16489

FMC TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**36-4412642** **(I.R.S. Employer Identification No.)**
1803 Gears Road, Houston, Texas **(Address of principal executive offices)**	**77067** **(Zip Code)**

Registrant s telephone number, including area code: 281/591-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

INDICATE BY CHECK MARK IF THE REGISTRANT IS A WELL-KNOWN SEASONED ISSUER, AS DEFINED IN RULE 405 OF THE SECURITIES ACT YES x NO ¨

INDICATE BY CHECK MARK IF THE REGISTRANT IS NOT REQUIRED TO FILE REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT YES ¨ NO x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES x NO ¨

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT 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. x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER AND LARGE ACCELERATED FILER IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER x ACCELERATED FILER ¨ NON-ACCELERATED FILER ¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12b-2 OF THE EXCHANGE ACT). YES ¨ NO x

THE AGGREGATE MARKET VALUE OF THE REGISTRANT S COMMON STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT, DETERMINED BY MULTIPLYING THE OUTSTANDING SHARES ON JUNE 30, 2005, BY THE CLOSING PRICE ON SUCH DAY OF $31.97 AS REPORTED ON THE NEW YORK STOCK EXCHANGE, WAS $1,197,334,334.*

THE NUMBER OF SHARES OF THE REGISTRANT S COMMON STOCK, $0.01 PAR VALUE, OUTSTANDING AS OF FEBRUARY 15, 2006 WAS 68,555,609.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT	FORM 10-K REFERENCE
Portions of Proxy Statement for the 2006 Annual Meeting of Stockholders	Part III

* Excludes 30,955,855 shares of the registrant s Common Stock held by directors, officers and holders of more than 5% of the registrant s Common Stock as of June 30, 2005. Exclusion of shares held by any person should not be construed to indicate that such person or entity possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person or entity is controlled by or under common control with the registrant.

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PART I

ITEM 1. BUSINESS

OVERVIEW

We provide mission-critical solutions, based on innovative, industry-leading technologies, for the energy, food processing and air transportation industries. We design, manufacture and service sophisticated machinery and systems for our customers through business segments: Energy Systems (comprising Energy Production Systems and Energy Processing Systems), FoodTech and Airport Systems. Financial information about our business segments is incorporated herein by reference from Note 18 to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

We were incorporated in November 2000 under Delaware law and were a wholly owned subsidiary of FMC Corporation until our initial public offering in June 2001, when 17% of our common stock was sold to the public. On December 31, 2001, FMC Corporation distributed its remaining 83% ownership of our stock to FMC Corporation s stockholders in the form of a dividend. Our principal executive offices are located at 1803 Gears Road, Houston, Texas 77067. As used in this report, except where otherwise stated or indicated by the context, all references to the Company, we, us, or our are to FMC Technologies, Inc. and its consolidated subsidiaries.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website at www.fmctechnologies.com, under Investor Center SEC Filings. Our Annual Report on Form 10-K for the year ended December 31, 2005, is also available in print to any stockholder free of charge upon written request submitted to Jeffrey W. Carr, General Counsel and Secretary, FMC Technologies, Inc., 1803 Gears Road, Houston, Texas, 77067.

Throughout this Annual Report on Form 10-K, we incorporate by reference certain information from our Proxy Statement for the 2006 Annual Meeting of Stockholders. The SEC allows us to disclose important information by referring to it in that manner. Please refer to such information. We provide stockholders with an annual report containing financial information that has been examined and reported upon, with an opinion expressed thereon by an independent registered public accounting firm. On or about April 3, 2006, our Proxy Statement for the 2006 Annual Meeting of Stockholders will be available on our website under Investor Center SEC Filings. Similarly, our 2005 Annual Report to Stockholders will be available on our website under Investor Center Financial Information.

BUSINESS SEGMENTS

Energy Production Systems

Energy Production Systems designs and manufactures systems and provides services used by oil and gas companies involved in land and offshore, including deepwater, exploration and production of crude oil and gas. Our production systems control the flow of oil and gas from producing wells. We specialize in offshore production systems and have manufacturing facilities near most of the world s principal offshore oil and gas producing basins. We market our products primarily through our own technical sales organization. This segment includes subsea production systems, surface production systems, floating production systems, and separation systems. Energy Production Systems revenue comprised approximately 57%, 53% and 49% of the Company s consolidated revenue in 2005, 2004 and 2003, respectively.

Principal Products and Services

Subsea Production Systems. Subsea systems represent 44%, 37%, and 35% of the Company s consolidated revenues in 2005, 2004, and 2003, respectively. Our systems are used in the offshore production of crude oil and natural gas reserves. Subsea systems are placed on the seafloor and are used to control the flow of crude oil and natural gas from the reservoir to a host processing facility, such as a floating production facility, a fixed platform, or an onshore facility. Our subsea equipment is remotely controlled by the host processing facility.

The design and manufacture of our subsea systems require a high degree of technical expertise and innovation. Some of our systems are designed to withstand exposure to the extreme hydrostatic pressure that deepwater environments present as well as internal pressures of up to 15,000 pounds per square inch and temperatures in excess of 350º F. The foundation of this business is our technology and engineering expertise.

The development of our integrated subsea systems usually includes initial engineering design studies, subsea trees, control systems, manifolds, seabed template systems, flowline connection and tie-in systems, installation and workover tools, and subsea wellheads. In order to provide these systems and services, we utilize highly-developed system and detail

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engineering, project management and global procurement, manufacturing, assembly and testing capabilities. Further, we provide service technicians for installation assistance and field support for commissioning, intervention and maintenance of our subsea systems throughout the life of the oilfield. Additionally, we provide tools such as our RLWI (riserless light well intervention) system for certain well workover and intervention tasks.

Surface Production Systems. In addition to our subsea systems that control the flow of oil and natural gas from deepwater locations, we provide a full range of surface wellheads and production systems for both standard service and critical service applications. Surface production systems, or trees, are used to control and regulate the flow of oil and gas from the well. Our surface products and systems are used worldwide on both land and offshore platforms and can be used in difficult climatic conditions, such as arctic cold or desert high temperatures. We support our customers through leading engineering, manufacturing, field installation support, and aftermarket services.

Floating Production Systems. We are a global supplier of marine terminals, turret and mooring systems, riser systems, swivel systems and control and service buoys for a broad range of marine and subsea projects through our FMC Technologies Floating Systems subsidiary. These products and services are part of our customers overall floating production system, which produces, processes, stores, and offloads crude oil from offshore fields.

Separation Systems. We currently own 55% of CDS Engineering (CDS) with a commitment to purchase the remaining 45% in 2009. CDS designs and manufactures systems that separate production flows from wells into oil, gas, water and sand. CDS separation technology modifies conventional separation technologies by moving the flow in a spiral, spinning motion. This causes the elements of the flow stream to separate more efficiently. These systems are currently capable of operating on surface systems onshore or on offshore facilities. We believe this technology has the future potential to operate on the seabed near a subsea production system providing subsea processing capabilities.

Status of Product Development

We continue to advance the development of subsea separation processing technologies through our CDS subsidiary. Subsea processing is an emerging technology in the industry, which we believe offers considerable benefits to the oil and gas producer, enabling a more rapid and cost-efficient approach to separation. First, if separation is performed on the seabed, the hydrostatic pressure of the fluid going from the seabed to the surface is reduced, allowing the well to flow more efficiently, accelerating production and enabling higher recoveries from the subsea reservoir. Also, it can significantly reduce the capital investment required for floating vessels or platforms, since the integration of processing capabilities will not be required. In 2005, we received a contract to introduce this technology commercially with Statoil s Tordis field in the North Sea.

We have also continued development of an all-electric subsea production system. An all-electric subsea system allows for more efficient production in ultra-deep waters than conventional systems which rely on hydraulics. We maintain a patent for an all-electric subsea tree and have developed an innovative, low-voltage all-electric subsea prototype of electric actuators that has been operating at Statoil s Statfjord North and East Fields offshore Norway since 2001, resulting in higher than expected production increases. We entered into a contract in 2005 to provide the first conversion of a production manifold to an all-electric operation which is an important advancement of our all-electric subsea production system technology.

Capital Intensity

Most of the systems and products that we supply for subsea and floating production applications are highly engineered to meet the unique demands of our customers and are typically ordered one or two years prior to installation. It is common practice to receive advance and progress payments from our customers in order to fund our working capital requirements. In addition, due to factors such as higher engineering content and our manufacturing strategy of outsourcing certain low value-added manufacturing activities, we believe that our Energy Production Systems business is less capital intensive than our competitors.

Dependence on Key Customers

Generally, our customers in this segment are major integrated oil or exploration and production companies. No single Energy Production Systems customer accounts for more than 10% of the Company s annual consolidated revenue.

With our integrated systems for subsea production, we have aggressively pursued alliances with oil and gas companies that are actively engaged in the subsea development of crude oil and natural gas. Development of subsea fields, particularly in deepwater environments, involves substantial capital investments by our customers. Our customers have sought the security of alliances with us to ensure timely and cost-effective delivery of subsea and other energy-related systems that provide an integrated solution to their needs. Our alliances establish important ongoing relationships with our customers. While our alliances generally do not always contractually commit our customers to purchase our systems and services, they have historically led to, and we expect that they will continue to result in, such purchases. The loss of one or more of our

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significant oil and gas company customers could have a material adverse effect on our Energy Production Systems business segment.

Competition

Energy Production Systems competes with other companies that supply subsea systems, floating production systems, surface production equipment, and separation systems, and with smaller companies that are focused on a specific application, technology or geographical niche. Companies such as Cooper Cameron Corporation, Vetco International Ltd., Aker Kværner ASA, Single Buoy Moorings Inc., and Wood Group compete with us in the marketplace across our various product lines.

Some of the factors on which we compete include reliability, cost-effective technology, execution, and delivery. We derive competitive strength from our intellectual capital, experience base and breadth of technologies and products that enable us to design a unique solution for our customers project requirements while incorporating standardized components to contain costs. Our deepwater expertise, experience and technology help us to maintain a leadership position in subsea systems.

Energy Processing Systems

Energy Processing Systems designs, manufactures and supplies technologically advanced high pressure valves and fittings for oilfield service customers. We also manufacture and supply liquid and gas measurement and transportation equipment and systems to customers involved in the production, transportation and processing of crude oil, natural gas and petroleum-based refined products. We sell to the end user using authorized representatives, distributor networks and our own technical sales organization. The segment includes fluid control, measurement solutions, loading systems, material handling systems and blending and transfer systems. Energy Processing Systems revenue comprised approximately 16%, 18% and 19% of the Company s consolidated revenue in 2005, 2004 and 2003, respectively.

Principal Products and Services

Fluid Control. We design and manufacture flowline products, under the WECO®/Chiksan® trademarks, and pumps and valves used in well completion and stimulation activities by major oilfield service companies, such as Schlumberger Limited, BJ Services Company and Halliburton Company.

Our flowline products are used in equipment that pumps corrosive fracturing fluid into a well during the well servicing process or that pumps cement during the completion on new wells. The performance of this business typically rises and falls with variations in the active rig count throughout the world. Our reciprocating pump product line includes duplex, triplex and quintuplex pumps utilized in a variety of applications. We also supply high-pressure compact production manifolds for the offshore oil and gas exploration industry.

Measurement Solutions Systems. Our measurement systems provide solutions for use in custody transfer of crude oil, natural gas and refined products. We combine advanced measurement technology with state-of-the-art electronics and supervisory control systems to provide the measurement of both liquids and gases for purposes of verifying ownership and determining revenue and tax obligations. Our Smith Meter

product lines are well-established in the industry. We are one of only a few suppliers of multi-path, ultrasonic flow meters for custody transfer of natural gas.

Loading Systems. We provide land and marine-based fluid loading and transfer systems primarily to the oil and gas industry. Our systems are capable of loading and offloading marine vessels transporting a wide range of fluids, such as crude oil, liquefied natural gas and refined products. While these systems are typically constructed on a fixed jetty platform, we have also developed advanced loading systems that can be mounted on a vessel to facilitate ship-to-ship tandem loading and offloading operations in open seas.

Material Handling Systems. We provide material handling systems, including bulk conveying systems to the power generation industry. We provide innovative solutions for conveying, feeding, screening and orienting bulk product for customers in industries as diverse as, for instance, mining, food processing, pharmaceutical packaging and automobile assembly. Our process and software engineering, mechanical design and project management expertise enable us to execute these projects on a turnkey basis.

Blending and Transfer Systems. We provide engineering, design and construction management services in connection with the application of blending technology, process controls and automation for manufacturers in the lubricant, petroleum, additive, chemical, paint, coating and personal care industries.

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Dependence on Key Customers

No single Energy Processing Systems customer accounts for more than 10% of the Company s annual consolidated revenue.

Competition

Energy Processing Systems currently has the first or second largest market share for its products and services. Some of the factors upon which we compete include technological innovation, reliability and product quality. Energy Processing Systems competes with a number of companies primarily in the gas and liquid custody transfer, high-pressure pumping services, and fluid loading and transfer systems industries. Companies such as Daniel Measurement and Loading, a division of Emerson Electric Company, Instromet, Inc., a division of Ruhrgas Industries GmbH, and Niigata Loading Systems Ltd. compete with us in the marketplace across our various product lines.

FoodTech

Principal Products and Services

FoodTech designs, manufactures and services technologically sophisticated food processing and handling systems used primarily for fruit juice production, frozen food production, shelf-stable food production and convenience food preparation by the food industry. We market our systems through our own technically oriented sales and marketing personnel and, in some cases, through independent distributors and sales representatives. We have customers and business operations throughout the world, and FoodTech s equipment is used in more than 100 countries. We capitalize on these markets by having our principal production facilities in the United States (Ohio, California and Florida), Belgium, Brazil, and Sweden. We design, manufacture and service technologically sophisticated food handling and processing systems used for, among other things, fruit juice production, frozen food production, shelf-stable food production and convenience food preparation. FoodTech revenue comprised approximately 17%, 19% and 23% of the Company s consolidated revenue in 2005, 2004 and 2003, respectively.

We supply citrus juice extractors and related citrus processing equipment for use in citrus processing plants, and aseptic juice and pulp systems. Some of our equipment is provided under full-service leases for which we are paid annual fixed rates plus, in some cases, payments based on production volumes. We are developing new extraction technology to provide more value to customers and to increase our competitive advantage in yield and efficiencies.

We design, assemble and sell a number of industry-leading freezing technologies including individual quick freezing, self-stacking spiral freezer systems and impingement freezing technologies. Our equipment is used for a variety of frozen food products, such as meat, seafood, poultry, bakery products, ready-to-serve meals, fruits, vegetables and dairy products.

We also manufacture and supply an array of equipment and services that enable us to provide integrated systems for a the processing of a variety of convenience foods. Our products include coating and cooking systems, portioners, such as our water jet portioners, and continuous batter-breading, frying and oven-cooking equipment. In addition, we supply complete processing lines for the production of french fries and

potato chips.

We are a global supplier of commercial sterilization systems used for the production of shelf-stable and pasteurized packaged foods including fruits, vegetables, soups, milk and a broad range of ready-to-serve meals. These systems may include a filler, a closer, a sterilizer and a control system. We also supply tomato processing equipment.

Seasonality

Due primarily to the seasonal nature of fruit production, FoodTech revenue is typically greater in the second and fourth quarters of each year.

Dependence on Key Customers

No single FoodTech customer accounts for more than 10% of the Company s annual consolidated revenue.

FoodTech is a major supplier of citrus processing equipment and services to large citrus processors. We have signed multiyear full-service lease contracts to supply these customers with our equipment and services. The loss of one or more of these customers could have a material adverse effect on our FoodTech business segment.

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Competition

FoodTech competes with a variety of local and regional companies typically focused on a specific application, technology or geographic area, and with a few large multinational companies. In each of our markets we have the first or second largest share. Some of the factors upon which we compete include technology, system integration, high product quality and reliability, safety and quality aftermarket services. Our ability to source from multiple locations around the world helps us to respond to the market conditions that affect the industries we serve, which we believe provides an advantage over local or regional companies. Our continuing presence with our installed base of products and systems and our aftermarket business enables us to tailor and apply our development efforts to fit our customers specific requirements.

The food industry is undergoing continuing consolidation as food processors are subject to growing pressure to increase efficiency and lower costs to maintain profitability. Major food processors are increasing their purchasing power through these consolidations with other food processors. As a result, they are seeking technologically sophisticated integrated systems and services, such as those we provide, to maximize the efficiency of their operations, while maintaining high standards of food safety.

Airport Systems

Principal Products and Services

Airport Systems is a global supplier of passenger boarding bridges, cargo loaders, and other ground support products and services. We design, manufacture and service technologically advanced equipment and systems primarily for commercial airlines, air freight companies, and airport authorities. These products are sold and marketed through our own technically oriented sales force as well as through independent distributors and sales representatives. Our products are in operation in more than 70 countries around the world. Airport Systems revenue comprised approximately 10%, 10% and 9% of the Company s consolidated revenue in 2005, 2004 and 2003, respectively.

Our Jetway® passenger boarding bridges provide passengers access from the aircraft to the terminal. In addition to passenger boarding bridges, we supply preconditioned air, potable water and power conversion systems.

We also supply cargo loaders to commercial airlines, air freight service providers, ground handlers, and the U.S. Air Force. Our cargo loaders service wide-body jet aircraft and can be configured to lift up to 30 tons. We also service the rapidly growing narrow-body aircraft market with the 2004 introduction of the RampSnake® automated baggage loader. Since 2000, we have been supplying the U.S. Air Force with a cargo loader designed specifically for military applications, commonly referred to today as the Halvorsen loader. U.S. government procurement funding authorization determines the quantity ordered each year. We are actively pursuing the expansion of the market for Halvorsen loaders beyond the U.S. Air Force by marketing this unit to international customers. We provide other ground support equipment, such as deicers and push-back tractors. We provide airport services which offer the customer centralized management of maintenance for airport facilities, passenger boarding bridges and ground support equipment. We also provide automated guided vehicles used in a variety of industries.

Dependence on Key Customers

No single Airport Systems customer accounts for more than 10% of the Company s annual consolidated revenue.

Government Contracts

U.S. defense contracts are unilaterally terminable at the option of the U.S. government with compensation for work completed and costs incurred. Contracts with the U.S. government are subject to special laws and regulations, noncompliance with which could result in various sanctions.

Competition

Airport Systems competes with a variety of local and regional companies typically focused on a specific application, technology or geographic area, and with a few large multinational companies, including ThyssenKrupp Airport Systems, S.A. and Téléflex Lionel-Dupont (TLD). Some of the factors on which we compete include reliability, cost-effectiveness, product performance and quality. Airlines, airports and air freight companies continue to outsource an increasing amount of non-core services and search for suppliers like us who provide integrated systems and products that are supported by extensive service capabilities.

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OTHER BUSINESS INFORMATION RELEVANT TO ALL OF OUR BUSINESS SEGMENTS

Order Backlog

Information regarding order backlog is incorporated herein by reference from the section entitled Inbound Orders and Order Backlog in Item 7 of this Annual Report on Form 10-K.

Sources and Availability of Raw Materials

All of our business segments purchase carbon steel, stainless steel, aluminum and steel castings and forgings both domestically and internationally. We do not use single source suppliers for the majority of our raw material purchases and believe the available supplies of raw materials are adequate to meet our needs.

Research and Development

We are engaged in research and development activities directed primarily toward the improvement of existing products and services, the design of specialized products to meet specific customer needs and the development of new products, processes and services. A large part of our product development spending in the past has focused on the standardization of our subsea and surface product lines. With standardized products, we can minimize engineering content, improve inventory utilization, and reduce cost through value engineering. Additional financial information about Company-sponsored research and development activities is incorporated herein by reference from Note 18 to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Patents, Trademarks and Other Intellectual Property

We own a number of U.S. and foreign patents, trademarks and licenses that are cumulatively important to our businesses. As part of our ongoing research and development, we seek patents when appropriate for new products and product improvements. We have approximately 1,700 issued patents and pending patent applications worldwide. Further, we license intellectual property rights to or from third parties. We also own numerous U.S. and foreign trademarks and trade names and have approximately 800 registrations and pending applications in the United States and abroad. We do not believe that the loss of any one patent, trademark, or license or group of related patents, trademarks, or licenses would have a material adverse effect on our overall business.

Employees

As of December 31, 2005, we had approximately 10,000 full-time employees; approximately 4,500 in the United States and 5,500 in non-U.S. locations. Only a small percentage of our U.S. employees are represented by labor unions. During 2006, we have a labor union contract expiring

in Erie, Pennsylvania, representing approximately 92 employees in our Energy Processing Systems business segment. Negotiations are expected to proceed in a timely and satisfactory manner and we believe relations with this organization, and our other labor organizations, are good.

Financial Information about Geographic Areas

The majority of our consolidated revenue and segment operating profit are generated in markets outside of the United States. Energy Production Systems and Energy Processing Systems revenue is dependent upon worldwide oil and gas exploration and production activity. FoodTech serves a global market, with sales to customers in North America, Europe, Asia and Latin America. Financial information about geographic areas is incorporated herein by reference from Note 18 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Important risk factors that could impact our ability to achieve our anticipated operating results and growth plan goals are presented below. You should read the following risk factors in conjunction with discussions of our business and the factors affecting our business located elsewhere in this Annual Report on Form 10-K and in our other filings with the SEC.

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INDUSTRY-RELATED RISKS

Demand for the systems and services provided by our Energy Production Systems and Energy Processing Systems businesses depends on oil and gas industry activity and expenditure levels, which are directly affected by trends in the demand for and price of crude oil and natural gas.

Our Energy Systems businesses are substantially dependent on conditions in the oil and gas industry and that industry s willingness and ability to spend capital on the exploration for and development of crude oil and natural gas. Any substantial or extended decline in these expenditures may result in the reduced discovery and development of new reserves of oil and gas and the reduced exploitation of existing wells, which could adversely affect demand for the systems and services of both Energy Production Systems and Energy Processing Systems. The level of spending is generally dependent on current and anticipated crude oil and natural gas prices, which have been volatile in the past.

Demand for the systems and services provided by our FoodTech and Airport Systems businesses is significantly dependent upon our customers expenditures for capital equipment, and a prolonged substantial reduction in those expenditures could adversely affect the demand for our systems and services.

The demand for our FoodTech systems, equipment and services is affected by factors such as consumer demand for processed and frozen foods, conditions in the agricultural sector affecting prices and public perception of food safety and contamination. Adverse weather conditions can have significant impacts on profits in the agricultural industry which directly impact demand for our systems and services. The magnitude and/or duration of the impact of severe weather conditions on the industry are difficult to predict. Futhermore, Airport Systems customers include airport authorities, domestic and international commercial airlines, and air freight companies. The profitability of companies in these industries is influenced by factors including jet fuel prices and the level of passenger and air freight activity. Changes in business strategies and capital spending levels in the airline industry due to changes in international, national, regional and local economic conditions, war, political instability and terrorism (and the threat thereof) may have a detrimental impact on demand for our systems and services.

The industries in which we operate or have operated expose us to potential liabilities arising out of the installation or use of our systems that could adversely affect our financial condition.

Our Energy Systems businesses operate in an industry that is subject to equipment defects, malfunctions and failures, equipment misuse and natural disasters, the occurrence of which may result in uncontrollable flows of gas or well fluids, fires and explosions. Our FoodTech businesses supply machinery and equipment with similar risks. In addition, our Airport Services businesses supply machinery and equipment used in airports all over the world, which could expose us to substantial liability for personal injury, wrongful death, product liability, commercial claims, property damage, pollution and other environmental damages. Although we have obtained insurance against many of these risks, we cannot assure you that our insurance will be adequate to cover our liabilities. Further, we cannot assure you that insurance will generally be available in the future or, if available, that premiums will be commercially justifiable. If we incur substantial liability and the damages are not covered by insurance or are in excess of policy limits, or if we were to incur liability at a time when we are not able to obtain liability insurance, our business, results of operations or financial condition could be materially adversely affected.

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Our customers industries are undergoing continuing consolidation that may impact our results of operations.

Some of our largest customers have consolidated and are using their size and purchasing power to achieve economies of scale and pricing concessions. This consolidation may result in reduced capital spending by such customers or the acquisition of one or more of our other primary customers, which may lead to decreased demand for our products and services. We cannot assure you that we will be able to maintain our level of sales to any customer that has consolidated or replace that revenue with increased business activities with other customers. As a result, this consolidation activity could have a significant negative impact on our results of operations or financial condition. We are unable to predict what effect consolidations in the industries may have on prices, capital spending by our customers, our selling strategies, our competitive position, our ability to retain customers or our ability to negotiate favorable agreements with our customers.

Our operations and the industries in which we operate are subject to a variety of U.S. and international laws and regulations that may increase our costs, limit the demand for our products and services or restrict our operations.

We depend on the demand for our systems and services from oil and gas companies. This demand is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry. For example, the adoption of laws and regulations curtailing exploration and development of drilling for crude oil and natural gas in our areas of operation for economic, environmental or other reasons could adversely affect our operations by limiting demand for our systems and services. In light of our foreign operations and sales, we are also subject to changes in foreign laws and regulations that may encourage or require hiring of local contractor or require foreign contractors to employ citizens of, or purchase supplies from, a particular non-U.S. jurisdiction.

In addition, environmental laws and regulations affect the systems and services we design, market and sell, as well as the facilities where we manufacture our systems. We are required to invest financial and managerial resources to comply with environmental laws and regulations and anticipate that we will continue to be required to do so in the future. Because these laws and regulations change frequently, we are unable to predict the cost or impact that they may have on our businesses. The modification of existing laws or regulations or the adoption of new laws or regulations imposing more stringent environmental restrictions could adversely affect our operations.

COMPANY-RELATED RISKS

Disruptions in the political, regulatory, economic and social conditions of the foreign countries in which we conduct business could adversely affect our business or results of operations.

We operate manufacturing facilities in 16 countries outside of the United States, and our international operations accounted for approximately 70% of our 2005 revenue. Instability and unforeseen changes in the international markets in which we conduct business, including economically and politically volatile areas such as North Africa, West Africa, the Middle East, Latin America and the Asia Pacific region, could cause or contribute to factors that could have an adverse effect on the demand for our systems and services, our financial condition or our results of operations. These factors include:

- foreign currency fluctuations or currency restrictions;

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nationalization and expropriation;

potentially burdensome taxation;

inflationary and recessionary markets, including capital and equity markets;

civil unrest, political instability, terrorist attacks and wars;

seizure of assets;

trade restrictions, trade protection measures or price controls;

foreign ownership restrictions;

import or export licensing requirements;

restrictions on operations, trade practices, trade partners and investment decisions resulting from domestic and foreign laws and regulations;

changes in governmental laws and regulations and the level of enforcement of laws and regulations;

inability to repatriate income or capital; and

reductions in the availability of qualified personnel.

Because a significant portion of our revenue is denominated in foreign currencies, changes in exchange rates will produce fluctuations in our costs and earnings, and may also affect the book value of our assets located outside of the U.S. and the amount of our stockholders equity. Although it is our policy to seek to minimize our currency exposure by engaging in hedging transactions where appropriate, we cannot assure you that our efforts will be successful. To the extent we sell our products and services in foreign markets, currency fluctuations may result in our products and services becoming too expensive for foreign customers.

We may lose money on fixed-price contracts.

As is customary for several of the business areas in which we operate, we agree to provide products and services under fixed-price contracts. Under these contracts, we are typically responsible for cost overruns. Our actual costs and any gross profit realized on these fixed-price contracts may vary from the estimated amounts on which these contracts were originally based. There is inherent risk in the estimation process and including significant unforeseen technical and logistical challenges or longer than expected lead times. A fixed-price contract may prohibit our ability to mitigate the impact of unanticipated increases in raw material prices (including the price of steel) through increased pricing. Depending on the size of a project, variations from estimated contract performance could have a significant impact on our operating results.

Due to the types of contracts we enter into, the cumulative loss of several major contracts or alliances may have an adverse effect on our results of operations.

We often enter into large, long-term contracts and leases that, collectively, represent a significant portion of our revenue. These agreements, if terminated or breached, may have a larger impact on our operating results or our financial condition than shorter-term contracts due to the value at risk. If we were to lose several key alliances or agreements over a relatively short period of time we could experience a significant adverse impact on our financial condition or results of operations.

Our businesses are dependent on the continuing services of certain of our key managers and employees.

We depend on our senior executive officers and other key personnel. The loss of any of these officers or key management could adversely impact our business if we are unable to effect key strategies or transactions in their absence. In addition, competition for qualified employees among companies that rely heavily on engineering and technology (as we do) is intense. The loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to conduct research activities successfully and develop marketable products and services.

Increased costs of raw materials and other components may result in increase operating expenses and adversely affect our results of operations and cash flows.

Our results of operations may be adversely affected by our inability to manage the rising costs and availability of raw materials and components used in our wide variety of products and systems. Unexpected changes in the size and timing of regional and/or product markets, particularly for short lead-time products, could affect our results of operations and our cash flows.

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Our success depends on our ability to implement new technologies and services.

Our success depends on the development and implementation of new product designs and improvements, and on our ability to protect and maintain critical intellectual property assets related to these developments. If we are not able to obtain patent or other protection of our technology, we may not be able to continue to develop systems, services and technologies to meet evolving industry requirements, and if so, at prices acceptable to our customers.

Some of our competitors are large national and multinational companies that may be able to devote greater resources to research and development of new systems, services and technologies than we are able to do. Moreover, some of our competitors operate in narrow business areas, allowing them to concentrate their research and development efforts directly on products and services for those areas. If we are unable to compete effectively given these risks, our business, results of operations and financial condition could be adversely affected.

ITEM 2. PROPERTIES

We own executive offices in Houston, Texas and lease executive offices in Chicago, Illinois. We operate 32 manufacturing facilities in 17 countries.

We believe our properties and facilities meet present requirements and are in good operating condition and that each of our significant manufacturing facilities is operating at a level consistent with the requirements of the industry in which it operates.

The significant production properties for the Energy Production Systems operations currently are:

Location	Square Feet (approximate)	Leased or Owned
United States:		
Houston, Texas	390,000	Owned
International:		
Rio de Janeiro, Brazil	225,000	Owned
*Sens, France	185,000	Owned
Jakarta, Indonesia	44,000	Owned
Johor Darul Takzim, Malaysia	66,000	Leased
Arnhem, The Netherlands	14,000	Owned
*Kongsberg, Norway	568,000	Leased
Dunfermline, Scotland	152,000	Owned
Singapore	97,000	Owned
Maracaibo, Venezuela	60,000	Owned

* These facilities are production properties for both Energy Production Systems and Energy Processing Systems.

The significant production properties for the Energy Processing Systems operations currently are:

Location	Square Feet (approximate)	Leased or Owned
United States:		
Tupelo, Mississippi	330,000	Owned
Erie, Pennsylvania	240,000	Owned
Homer City, Pennsylvania	225,000	Owned
Corpus Christi, Texas	15,000	Owned
Stephenville, Texas	300,000	Owned
International:		
Ellerbek, Germany	200,000	Owned

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The significant production properties for the FoodTech operations currently are:

Location	Square Feet (approximate)	Leased or Owned
United States:		
Madera, California	250,000	Owned
Lakeland, Florida	208,000	Owned
Northfield, Minnesota	50,000	Owned
Sandusky, Ohio	140,000	Owned
Newberg, Oregon	101,000	Leased
International:		
St. Niklaas, Belgium	182,000	Owned
Araraquara, Brazil	106,000	Owned
Collecchio, Italy	34,000	Leased
Parma, Italy	72,000	Owned
Helsingborg, Sweden	227,000	Owned/Leased

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The significant production properties for the Airport Systems operations currently are:

Location	Square Feet (approximate)	Leased or Owned
United States:		
Orlando, Florida	253,000	Owned
Chalfont, Pennsylvania	67,000	Leased
Ogden, Utah	220,000	Owned/Leased
International:		
Leicestershire, England	15,000	Leased
Juarez, Mexico	33,000	Leased
Madrid, Spain	258,000	Owned

ITEM 3. LEGAL PROCEEDINGS

We are named defendants in a number of multi-defendant, multi-plaintiff tort lawsuits. Under the Separation and Distribution Agreement with FMC Corporation, which contains key provisions relating to our 2001 spin-off from FMC Corporation, FMC Corporation is required to indemnify us for certain claims made prior to the spin-off, as well as for other claims related to discontinued operations. We expect that FMC Corporation will bear responsibility for the majority of these claims. Certain claims have been asserted subsequent to the spin-off. While the ultimate responsibility for these claims cannot yet be determined due to lack of identification of the products or premises involved, we also expect that FMC Corporation will bear responsibility for a majority of these claims.

In February 2003, we initiated court action in the Judicial District Court in Harris County, Texas, against ABB Lummus Global, Inc. (ABB), seeking recovery of scheduled payments owed and compensatory, punitive and other damages. In 2004, this matter was removed to federal court pursuant to a motion by ABB. In January 2006, the United States District Court for the Southern District of Texas dismissed the claim providing that court with subject matter jurisdiction and remanded the matter back to state court. A state court trial date has not yet been established.

While the results of litigation cannot be predicted with certainty, management believes that the most probable, ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2005.

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Pursuant to General Instruction G(3), the information regarding our executive officers called for by Item 401(b) of Regulation S-K is hereby included in Part I of this Form 10-K.

Executive Officers of the Registrant

The executive officers of the Company, together with the offices in the Company currently held by them, their business experience and their ages as of February 23, 2006, are as follows:

Name	Age	Office, year of election and other information for past five years
Joseph H. Netherland	59	Chairman and Chief Executive Officer (2006); Chairman, President and Chief Executive Officer (2001); President of FMC Corporation (1999); Executive Vice President of FMC Corporation (1998)
Peter D. Kinnear	58	President and Chief Operating Officer (2006); Executive Vice President (2004); Vice President (2001); Vice President of FMC Corporation (2000); General Manager, Petroleum Equipment and Systems Division of FMC Corporation (1994)
William H. Schumann, III	55	Senior Vice President and Chief Financial Officer (2001); Treasurer (2002-2004); Senior Vice President and Chief Financial Officer of FMC Corporation (1999); Vice President, Corporate Development of FMC Corporation (1998)
Charles H. Cannon, Jr.	53	Senior Vice President (2004); Vice President and General Manager FoodTech and Airport Systems (2001); Vice President and General Manager of FMC Corporation FoodTech (1994) and Transportation Systems Group of FMC Corporation (1998)
Jeffrey W. Carr	49	Vice President, General Counsel and Secretary (2001); Associate General Counsel of FMC Corporation (1997)
Ronald D. Mambu	56	Vice President and Controller (2001); Vice President and Controller of FMC Corporation (1995)
Michael W. Murray	59	Vice President, Administration and Human Resources (2001); Vice President, Human Resources of FMC Corporation (1995)
Robert L. Potter	55	Vice President (2001); Division President of Energy Transportation and Measurement Division of FMC Corporation (1995)

No family relationships exist among any of the above-listed officers, and there are no arrangements or understandings between any of the above-listed officers and any other person pursuant to which they serve as an officer. During the past five years, none of the above-listed officers have been involved in any legal proceedings as defined in Item 401(f) of Regulation S-K. All officers are elected to hold office until their successors are elected and qualified.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange under the symbol FTI. Market information with respect to our common stock is incorporated herein by reference from Note 19 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

As of February 1, 2006, there were 5,475 holders of record of the Company s common stock.

We have not declared or paid cash dividends in 2004 or 2005, and we do not currently have a plan to pay dividends in the future.

Information regarding securities authorized for issuance under our equity compensation plans is incorporated herein by reference from the section entitled Equity Compensation Plan Information of the Proxy Statement for the 2006 Annual Meeting of Stockholders.

We had no unregistered sales of equity securities during the three months ended December 31, 2005. The following table summarizes repurchases of our common stock during the three months ended December 31, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (b)
October 1, 2005				
October 31, 2005	**4,230**	**$ 37.62**		**1,046,944**
November 1, 2005				
November 30, 2005	**125,130**	**$ 38.49**	**117,000**	**929,944**
December 1, 2005				
December 31, 2005	**686,900**	**$ 42.36**	**680,800**	**249,144**

Total	**816,260**	**$**	**41.75**	**797,800**	**249,144**

(a) Represents 797,800 shares of common stock repurchased and held in treasury and 18,460 shares of common stock purchased and held in an employee benefit trust established for the FMC Technologies, Inc. Non-Qualified Savings and Investment Plan. In addition to these shares purchased on the open market, we sold 6,580 shares of registered common stock held in this trust, as directed by the beneficiaries, during the three months ended December 31, 2005.

(b) On February 7, 2005, we announced a plan to repurchase shares of our outstanding common stock pursuant to a repurchase program approved by our Board of Directors. Under this program, we are authorized to repurchase up to two million shares of common stock through open market purchases.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data derived from our audited financial statements. Audited financial statements for the years ended December 31, 2005, 2004 and 2003 and as of December 31, 2005 and 2004 are included elsewhere in this report. Financial data relating to periods prior to our June 2001 separation from FMC Corporation represent combined financial information carved out from the consolidated financial statements of FMC Corporation using the historical results of operations and bases of assets and liabilities of the businesses transferred to FMC Technologies, Inc. Our historical combined financial information does not necessarily reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity for the full year 2001.

($ In millions, except per share data)

Years ended December 31	**2005**	**2004**	**2003**	**2002**	**2001**
Revenue:					
Energy Production Systems	$ 1,850.2	$ 1,487.8	$ 1,136.2	$ 940.3	$ 725.9
Energy Processing Systems	521.8	493.3	431.7	395.9	400.0
Intercompany eliminations	(3.0)	(10.7)	(2.8)	(1.4)	(0.6)
Total Energy Systems	2,369.0	1,970.4	1,565.1	1,334.8	1,125.3
FoodTech	539.2	525.8	524.7	496.9	512.9
Airport Systems	327.3	279.8	224.1	245.1	299.8
Intercompany eliminations	(8.8)	(8.3)	(6.8)	(5.3)	(10.1)
Total revenue	$ 3,226.7	$ 2,767.7	$ 2,307.1	$ 2,071.5	$ 1,927.9
Cost of sales	$ 2,673.5	$ 2,265.7	$ 1,845.9	$ 1,655.4	$ 1,489.7
Asset impairment		6.5			
Restructuring charges					15.5
Selling, general and administrative expense	369.7	340.4	312.6	274.8	298.2
Research and development expense	51.5	50.4	45.3	47.8	54.9
Total costs and expenses	3,094.7	2,663.0	2,203.8	1,978.0	1,858.3
Net gain on disposal of assets	38.3	59.8	2.3	1.2	0.5
Minority interests	(2.5)	1.4	(1.1)	(2.2)	(1.2)
Income before net interest expense and income taxes	167.8	165.9	104.5	92.5	68.9
Net interest expense	5.5	6.9	8.9	12.5	11.1
Income before income taxes and the cumulative effect of accounting changes	162.3	159.0	95.6	80.0	57.8
Provision for income taxes	56.2	42.3	26.7	22.2	21.9
Income before the cumulative effect of accounting changes	106.1	116.7	68.9	57.8	35.9
Cumulative effect of accounting changes, net of income taxes				(193.8)	(4.7)
Net income (loss)	$ 106.1	$ 116.7	$ 68.9	$ (136.0)	$ 31.2

($ In millions, except per share data)

Years ended December 31	**2005**	**2004**	**2003**	**2002**	**2001**

Diluted earnings (loss) per share:					
Income before the cumulative effect of accounting changes	$ 1.50	$ 1.68	$ 1.03	$ 0.87	$ 0.54
Diluted earnings (loss) per share	$ 1.50	$ 1.68	$ 1.03	$ (2.03)	$ 0.47
Diluted weighted average shares outstanding (1)	70.8	69.3	66.9	66.8	65.9
Common stock price range:					
High	$ 43.78	$ 34.50	$ 24.60	$ 23.83	$ 22.48
Low	$ 29.05	$ 21.97	$ 17.94	$ 14.30	$ 10.99
Cash dividends declared	$	$	$	$	$

As of December 31	**2005**	**2004**	**2003**	**2002**	**2001**
Balance sheet data:					
Total assets	$ 2,095.6	$ 1,893.9	$ 1,597.1	$ 1,382.8	$ 1,444.4
Net debt (2)	$ 103.0	$ 39.0	$ 192.5	$ 202.5	$ 245.0
Long-term debt, less current portion	$ 252.6	$ 160.4	$ 201.1	$ 175.4	$ 194.1
Stockholders equity	$ 699.5	$ 662.2	$ 443.3	$ 314.1	$ 424.7
Segment operating capital employed (3)	$ 899.5	$ 792.3	$ 761.5	$ 685.3	$ 909.9
Order backlog (4)	$ 1,933.5	$ 1,587.1	$ 1,258.4	$ 1,151.0	$ 960.7

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Years ended December 31	2005	2004	2003	2002	2001
Other financial information:					
Capital expenditures	$ 91.8	$ 50.2	$ 65.2	$ 68.1	$ 67.6
Cash flows provided (required) by operating activities of continuing operations	$ (29.6)	$ 132.9	$ 150.4	$ 119.0	$ 76.3

(1) The calculation of average shares in 2001 gives effect to the issuance of 65.0 million common shares as if they were issued and outstanding on January 1, 2001.

(2) Net debt consists of short-term debt, long-term debt and the current portion of long-term debt less cash and cash equivalents.

(3) We view segment operating capital employed, which consists of assets, net of liabilities, as the primary measure of segment capital. Segment operating capital employed excludes corporate debt facilities and investments, pension liabilities, income taxes and LIFO reserves.

(4) Order backlog is calculated as the estimated sales value of unfilled, confirmed customer orders at the reporting date.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

Statement under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995: FMC Technologies, Inc. and its representatives may from time to time make written or oral statements that are forward-looking and provide information that is not historical in nature, including statements that are or will be contained in this report, the notes to our consolidated financial statements, our other filings with the Securities and Exchange Commission, our press releases and conference call presentations and our other communications to our stockholders. These statements involve known and unknown risks, uncertainties and other factors that may be outside of our control and may cause actual results to differ materially from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statement. These factors include, among other things, those described under Risk Factors in Item 1A of the Company s Annual Report on Form 10-K.

In some cases, forward-looking statements can be identified by such words or phrases as will likely result, is confident that, expects, should, could, may, will continue to, believes, anticipates, predicts, forecasts, estimates, projects, potential, intends or similar expr forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including the negative of those words and phrases. Such forward-looking statements are based on our current views and assumptions regarding future events, future business conditions and our outlook based on currently available information. We wish to caution you not to place undue reliance on any such forward-looking statements, which speak only as of the date made and involve judgments.

Background

FMC Technologies, Inc. was incorporated in Delaware on November 13, 2000 and was a wholly owned subsidiary of FMC Corporation until its initial public offering on June 14, 2001 when the Company sold 17.0% of its common stock to the public.

On December 31, 2001, FMC Corporation distributed its remaining 83.0% of FMC Technologies common stock to FMC Corporation s shareholders in the form of a dividend.

Executive Overview

We design, manufacture and service sophisticated machinery and systems for customers in the energy, food processing and air transportation industries. We have manufacturing operations in 17 countries and are strategically located to facilitate delivery of our products and services to our customers. We operate Energy Systems (comprising Energy Production Systems and Energy Processing Systems), FoodTech and Airport Systems business segments. Our business segments serve diverse industries with a wide customer base. We focus on economic and industry-specific drivers and key risk factors affecting each of our business segments as we formulate our strategic plans and make decisions related to allocating capital and human resources. The following discussion provides examples of the kinds of economic and industry factors and key risks that we consider.

The results of our Energy Systems businesses are primarily driven by changes in exploration and production spending by oil and gas companies, which in part depend upon current and anticipated future crude oil and natural gas prices and production volumes. Fluctuations in raw material prices, such as the increase in steel prices in recent years, affect product costs in many of our Energy Systems business units. However, in most of these business units, we have been able to pass on steel cost increases to our customers. Our Energy Production Systems business is affected by trends in land and offshore oil and gas production, including shallow and deepwater output. Additionally, given the substantial capital investments required from our customers to complete an offshore project, our customers overall profitability influences our results. Our Energy Processing Systems business results reflect spending by oilfield service companies and engineering construction companies for equipment and systems that facilitate the measurement and transportation of crude oil and natural gas. The level of production activity worldwide influences spending decisions, and we use rig count as one indicator of demand.

Our FoodTech business results reflect the level of capital investment being made by our food processing customers. The level of capital spending also is influenced by changing consumer preferences, public perception of food safety, conditions in the agricultural sector that affect commodity prices, and by our customers overall profitability. FoodTech revenues include variable rentals from equipment leases, such as citrus extractors. The hurricanes in Florida in the last few years have devastated citrus crops in that region, which has adversely affected our variable rentals from extractor leases. FoodTech volumes also may fluctuate as a result of consolidation of customers in the commercial food processing industry.

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The results of our Airport Systems business are highly dependent upon the profitability of our customers in the airline and air cargo markets. Their profitability is affected by fluctuations in passenger and freight traffic and the volatility of operating expenses, including the impact of costs related to labor, fuel and airline security. In addition, results in our Airport Systems business are influenced by the level of purchases by the U.S. Air Force, which depend upon governmental funding approvals. Similar to Energy Production Systems, rising steel prices have increased costs in Airport Systems, especially in our Jetway® business. Changes in significant raw material prices, such as steel, will continue to impact our Airport Systems results.

We also focus on key risk factors when determining our overall strategy and making decisions for allocating capital. These factors include risks associated with the global economic outlook, product obsolescence, and the competitive environment. We address these risks in our business strategies, which incorporate continuing development of leading edge technologies, cultivating strong customer relationships, and implementing strategic international expansion.

In 2005, we continued to emphasize technological advancement in all of our segments. In Energy Production Systems, we continued the development of an all-electric subsea production system, which allows for more efficient production in ultra-deep waters than conventional systems which rely on hydraulics. Several emerging technologies began the transition from testing to commercial introduction including subsea processing and separation, Riserless Light Well Intervention (RLWI), and Through Tubing Rotary Drilling/Completion. The oil and gas industry responded well to Energy Processing Systems introduction of a higher capacity pump product line. FoodTech launched a variety of new products during 2005 designed to advance food quality and safety and lower costs, including products used by poultry and other food processors and food packagers. Further, we enhanced existing products to meet the changing needs in the food processing and handling industries. In 2005, Airport Systems began developing a line of equipment designed to service larger new planes such as the A-380 aircraft. We are committed to continuing our investments in technological innovations to expand our technology base, develop new products and increase profitability.

We have developed close working relationships with our customers in all of our business segments. Our Energy Production Systems business results reflect our ability to build long-term alliances with oil and gas companies that are actively engaged in offshore deepwater development, and provide solutions to their needs in a timely and cost-effective manner. We have formed similar collaborative relationships with oilfield service companies in Energy Processing Systems, air cargo companies in Airport Systems and citrus processors in FoodTech. We believe that by working closely with our customers we enhance our competitive advantage, strengthen our market positions and improve our results.

In all of our segments, we serve customers from around the world. During 2005, 69% of our total sales were to non-U.S. locations. We evaluate international markets and pursue opportunities that fit our business model. For example, we have targeted opportunities in West Africa and the Asia Pacific region because of the offshore drilling potential in those regions, and we are positioning ourselves to compete in the market for Jetway® passenger boarding bridges in Asia, China, Russia and the Middle East.

As we evaluate our operating results, we view our business segments by product line and consider performance indicators like segment revenues, operating profit and capital employed, in addition to the level of inbound orders and order backlog. A significant and growing proportion of our revenues are recognized under the percentage of completion method of accounting, while our payments for such arrangements are generally received according to milestones achieved under stated contract terms. Consequently, the timing of revenue recognition is not correlated with the timing of customer payments. We may structure our contracts to receive advance payments which we may use to fund inventory purchases. Working capital (excluding cash) and net debt are therefore key performance indicators of cash flows.

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CONSOLIDATED RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2005, 2004 and 2003

	Year Ended December 31,			Change			
	2005	2004	2003	2005 vs. 2004		2004 vs. 2003	
($ in millions)							
Revenue	$ 3,226.7	$ 2,767.7	$ 2,307.1	$ 459.0	17%	$ 460.6	20%
Costs and expenses:							
Cost of sales	2,673.5	2,265.6	1,845.9	407.9	18	419.7	23
Asset impairment		6.5		(6.5)	*	6.5	*
Selling, general and administrative expense	369.7	340.4	312.6	29.3	9	27.8	9
Research and development expense	51.5	50.4	45.3	1.1	2	5.1	11
Total costs and expenses	3,094.7	2,662.9	2,203.8	431.8	16	459.1	21
Net gain on disposal of assets	38.3	59.7	2.3	(21.4)	(36)	57.4	*
Minority interests	(2.5)	1.4	(1.1)	(3.9)	*	2.5	*
Net interest expense	(5.5)	(6.9)	(8.9)	1.4	(20)	2.0	(22)
Income before income taxes	162.3	159.0	95.6	3.3	2	63.4	66
Provision for income taxes	56.2	42.3	26.7	13.9	33	15.6	58
Net income	$ 106.1	$ 116.7	$ 68.9	$ (10.6)	(9)%	$ 47.8	69%

* Not meaningful

2005 Compared With 2004

Our total revenue for the year ended December 31, 2005 increased compared to the prior year by 17%. While all of our business segments generated higher revenue in 2005, the increase is primarily due to continued growth in Energy Production Systems, which was up 24% compared to the prior year. We continue to benefit from the growing demand for the supply of oilfield-related equipment, especially in subsea systems, used in the major oil and gas producing regions throughout the world. Airport Systems experienced a 17% growth in annual sales, which resulted from improved ground support equipment and services demand. Of the total increase in sales, $40.9 million was attributable to the favorable impact of foreign currency translation.

Cost of sales for the year ended December 31, 2005 increased over 2004 both in dollar terms and as a percentage of sales. Cost of sales totaled 82.9% of sales, up from 81.9% in 2004. The $54.9 million provision for losses on our contract with Sonatrach-TRC, the Algerian Oil and Gas Company (Sonatrach) recorded in 2005, which was $33.5 million higher than the 2004 provision, was the primary driver of the increase in cost of sales as a percentage of sales. Of the total increase in cost of sales, $41.1 million was attributable to the impact of foreign currency translation.

Selling, general and administrative expense for the year ended December 31, 2005 increased compared to 2004, but declined as a percentage of sales from 12.3% in 2004 to 11.5% in 2005. Higher costs in our Energy Production Systems businesses were primarily responsible for the increase, the result of a higher level of bid and proposal activities and the impact of increased headcount required to support growth in this

business segment. Of the total increase in selling, general and administrative expense, $2.6 million was attributable to the impact of foreign currency translation.

During the third and fourth quarters of 2005, we sold our investment in common stock of MODEC, Inc. and our interest in the GTL Microsystems joint venture, which together represented a pre-tax gain of $33.9 million. These gains were less than the $60.4 million gain on conversion of our investment in MODEC International LLC that we recorded in the fourth quarter of 2004. Our pre-tax income benefited from the absence of an asset impairment charge in 2005. We recognized a $6.5 million goodwill impairment charge related to our blending and transfer product line in 2004.

Net interest expense for the year ended December 31, 2005 was lower compared to the prior year, primarily as a result of higher interest income.

Income tax expense for the year ended December 31, 2005 resulted in an effective income tax rate of 35%, compared to an effective rate of 27% for 2004. The increase in effective tax rate is attributable to $25.5 million in incremental tax expense recorded in 2005 related to repatriating foreign earnings under the American Jobs Creation Act of 2004 (the JOBS Act). This effect was partially offset by lower domestic taxable earnings as a result of lower investment gains, higher Sonatrach project losses in 2005 and the correction of an immaterial error in 2005 resulting in a reduction in income tax expense of $5.4 million.

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2004 Compared With 2003

Our total revenue for the year ended December 31, 2004 increased by 20%, primarily due to continued growth in our Energy Systems businesses. In 2004, our technological capabilities enabled us to continue to benefit from the growing demand for the supply of equipment used in the major oil and gas producing regions throughout the world. To a lesser extent, the increase in 2004 revenue also reflected higher revenue in the Airport Systems business segment. Of the total increase in sales, $88.7 million was attributable to the favorable impact of foreign currency translation.

Cost of sales for the year ended December 31, 2004 increased 23% compared with 2003. Cost of sales totaled 81.9% of sales, up from 80.0% in 2003. The increase in cost of sales resulted primarily from higher sales volumes during 2004. The impact of foreign currency translation and a provision for anticipated losses on our contract with Sonatrach were responsible for $75.6 million and $21.4 million of the increase, respectively, in cost of sales. These increases in cost were partially offset by the positive impact of cost saving measures and a more favorable product mix in 2004.

Selling, general and administrative expense for the year ended December 31, 2004 increased 9% compared to the prior year. Unfavorable changes in foreign currency translation represented $9.3 million of the increase. The remaining increase reflected higher employee related costs associated with business expansion, especially in our Energy Production Systems business segment. In 2004, selling, general and administrative expenses were 12.3% of sales, down from 13.5% of sales in 2003.

Pre-tax income in 2004 increased primarily as a result of a $60.4 million gain ($36.1 million after tax) on the conversion of our investment in MODEC International LLC, and the positive impact of higher sales volumes. In addition, 2004 net income reflected the benefit of tax adjustments of $11.9 million resulting from a favorable judgment in a tax dispute and the resolution of foreign tax audits in the fourth quarter of 2004. These increases were partially offset by a loss provision in Energy Production Systems of $21.4 million ($13.1 million after tax) on the Sonatrach project, mainly due to the effect of severe weather conditions. In Energy Processing Systems, a $6.5 million impairment charge ($6.1 million after tax) was required to write off goodwill associated with the blending and transfer product line. Lower operating profit from FoodTech also contributed to the unfavorable comparison.

The 2004 gain on conversion of our investment in MODEC International LLC was associated with our decision to exchange our 37.5% interest in MODEC International LLC for cash and shares of common stock of MODEC, Inc. MODEC International LLC was a joint venture investment between FMC Technologies and a subsidiary of MODEC, Inc. The joint venture agreement gave us the right to convert our ownership beginning in 2004. MODEC International LLC was part of the Energy Production Systems business segment. The gain on conversion of our interest in the joint venture is not included in our measure of segment operating profit.

When compared with the prior year, net interest expense decreased in 2004, primarily attributable to lower average debt levels.

Income tax expense for the year ended December 31, 2004 resulted in an effective tax rate of 27%. An effective tax rate of 28% was realized in 2003. In 2004, we realized tax benefits related to the settlement of a tax dispute with FMC Corporation and the closure of several tax audits. The differences between the effective tax rates for these years and the statutory U.S. federal income tax rate relate primarily to differing foreign tax rates, taxes on intercompany dividends and deemed dividends for tax purposes, the settlement of the tax dispute and audits, and non-deductible expenses.

Outlook for 2006

We are anticipating continued growth in our earnings per share in 2006. We expect 2006 growth to be driven by our Energy Systems businesses. The section entitled Operating Results of Business Segments provides further discussion of our 2006 outlook. We currently estimate that our full year diluted earnings per share will be within the range of $2.20 to $2.40.

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Operating Results of Business Segments

Segment operating profit is defined as total segment revenue less segment operating expenses. The following items have been excluded in computing segment operating profit: corporate staff expense, interest income and expense associated with corporate debt facilities and investments, income taxes and other expense, net.

The following table summarizes our operating results for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,			Favorable/(Unfavorable)			
	2005	2004	2003	2005 vs. 2004		2004 vs. 2003	
($ in millions)							
Revenue							
Energy Production Systems	$ 1,850.2	$ 1,487.8	$ 1,136.2	$ 362.4	24%	$ 351.6	31%
Energy Processing Systems	521.8	493.3	431.7	28.5	6	61.6	14
Intercompany eliminations	(3.0)	(10.7)	(2.8)	7.7	*	(7.9)	*
Subtotal Energy Systems	2,369.0	1,970.4	1,565.1	398.6	20	405.3	26
FoodTech	539.2	525.8	524.7	13.4	3	1.1	0
Airport Systems	327.3	279.8	224.1	47.5	17	55.7	25
Intercompany eliminations	(8.8)	(8.3)	(6.8)	(0.5)	*	(1.5)	*
Total revenue	$ 3,226.7	$ 2,767.7	$ 2,307.1	$ 459.0	17%	$ 460.6	20%
Net income							
Segment operating profit							
Energy Production Systems	$ 75.3	$ 71.1	$ 66.0	$ 4.2	6%	$ 5.1	8%
Energy Processing Systems (1)	54.1	27.4	30.3	26.7	97	(2.9)	(10)
Subtotal Energy Systems	129.4	98.5	96.3	30.9	31	2.2	2
FoodTech	37.9	36.8	44.0	1.1	3	(7.2)	(16)
Airport Systems	23.8	16.0	12.4	7.8	49	3.6	29
Total segment operating profit	191.1	151.3	152.7	39.8	26	(1.4)	(1)
Corporate items:							
Gain on sale of investments	33.9	60.4		(26.5)	(44)	60.4	*
Corporate expense	(30.0)	(28.3)	(24.3)	(1.7)	(6)	(4.0)	(16)
Other expense, net	(27.2)	(17.5)	(23.9)	(9.7)	(55)	6.4	27
Net interest expense	(5.5)	(6.9)	(8.9)	1.4	20	2.0	22
Total corporate items	(28.8)	7.7	(57.1)	(36.5)	(474)	64.8	113
Income before income taxes	162.3	159.0	95.6	3.3	2	63.4	66
Provision for income taxes	(56.2)	(42.3)	(26.7)	(13.9)	(33)	(15.6)	(58)
Net income (loss)	$ 106.1	$ 116.7	$ 68.9	$ (10.6)	(9)%	$ 47.8	69%

(1) Energy Processing Systems operating profit in 2004 included a goodwill impairment charge of $6.5 million.

* Not meaningful

Energy Production Systems

2005 Compared With 2004

Energy Production Systems revenue was higher in 2005 compared to 2004. Segment revenue is affected by trends in land and offshore oil and gas exploration and production, including shallow and deepwater development. Favorable shifts in these factors have contributed to higher revenue from sales of subsea systems and surface products. Revenue from sales of subsea systems of $1.4 billion in 2005 grew by $394.1 million, or 39%, from $1.0 billion in 2004. Approximately $47.3 million of the increase in subsea revenue was attributable to favorable foreign currency translation. Subsea volumes increased primarily as a result of progress on new and ongoing projects located offshore West Africa, Brazil and the North Sea. We experienced a reduction in sales of floating production systems, primarily relating to progress on the Sonatrach project, which had sales of $48.0 million and $148.6 million in 2005 and 2004, respectively. The remainder of the increase in revenue reflects higher demand for surface products primarily due to favorable market conditions for land-based drilling.

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Energy Production Systems generated an operating profit of $75.3 million in 2005, which represented an increase of $4.2 million compared to 2004. Our earnings were significantly impacted in both years by losses on the Sonatrach contract. Segment operating profit for Energy Production Systems included the following related to the Sonatrach project:

	Year ended December 31,		
(In millions)	2005	2004	Favorable (unfavorable)
Revenue	$ 48.0	$ 148.6	$ (100.6)
Costs incurred	(102.9)	(170.0)	67.1
Losses from Sonatrach contract	$ (54.9)	$ (21.4)	$ (33.5)

The Sonatrach contract involves the supply and installation of offshore oil loading systems at three locations. During 2004, we recognized a $21.4 million provision for losses due to an increase in the estimate of our total project costs. During 2005, we increased our estimate of costs to complete the contract by $54.9 million due to customer caused delays resulting in extended testing and higher installation and project management costs. Subsequent to December 31, 2005 we completed final testing of the installed equipment and received customer acceptance under the contract.

Excluding the Sonatrach loss, operating profit increased $37.7 million during 2005. Higher sales volumes contributed $76.9 million in incremental profit. A decrease in profit margins as a result of an unfavorable change in the project and geographic mix lowered earnings by $17.5 million. Our projects in certain locations, particularly West Africa, have increased demands for local content, and the contractual requirements for sourcing limit our abilities to bid for supply of certain items. We incurred $13.0 million in incremental selling, general and administrative expenses in 2005 primarily reflective of higher business activity levels. The impact of foreign currency translation on the segment operating profit was minimal as the favorable effect on revenue was offset by similar increases in expenses.

2004 Compared With 2003

Energy Production Systems revenue was higher in 2004 than in the same period in 2003, with growth in subsea systems, floating production systems and, to a lesser extent, the surface business. Revenue from sales of subsea systems of $1.0 billion in 2004 increased $198 million, or 24%, from $817 million in 2003, of which $148 million related to higher volumes and $50 million to the favorable impact of foreign currency translation. Subsea volumes increased primarily as a result of new and ongoing projects located offshore Brazil, the North Sea, Asia Pacific and offshore West Africa, partially offset by a reduction in projects in the Gulf of Mexico. Floating production systems revenues grew by $122 million over the same period in the prior year. This was primarily attributable to higher revenue associated with the Sonatrach project, which increased $95 million to a total of $148.6 million in 2004.

Energy Production Systems 2004 operating profit increased compared with 2003, with higher volumes and favorable margins in our subsea and surface businesses more than offsetting the impact of higher selling, general and administrative expense and period costs related to the Sonatrach project. Operating profit from subsea systems grew 46% from 2003 as a result of higher sales volumes and improved margins. The increase in subsea systems was offset by a decline in operating profit at our floating production systems business compared to 2003, which was primarily

the result of $21.4 million in pre-tax provisions recorded for losses on the Sonatrach project. To a lesser extent, Energy Production Systems operating profit increased as a result of higher sales volumes and margins in the surface business. Selling, general and administrative expense were higher in 2004 compared to the prior year, attributable to increased bid and proposal costs and variable selling expenses, such as commissions.

Outlook for 2006

For 2006, we are expecting another year of growth in operating profit in our Energy Production Systems business. This expectation is based on our backlog of orders in subsea systems and forecasts of favorable market conditions, including continued high oil and gas prices and increased rig activity worldwide. Our 2005 results included $54.9 million in losses on the Sonatrach project.

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Energy Processing Systems

2005 Compared With 2004

Energy Processing Systems revenue was higher in 2005 compared to 2004 primarily as a result of higher demand for WECO®/Chiksan® equipment, which is sold primarily to service companies. Approximately 20% of the increase in revenue is attributable to higher prices for fluid control products. High oil and gas prices as well as the continuing growth in land-based drilling activity (rig counts) generated the increase in demand. Volume from other product lines in this segment was approximately in line with 2004 results.

Energy Processing Systems operating profit in 2005 increased compared to 2004 primarily as a result of higher volume ($10.1 million), the absence of asset impairment charges recorded in 2004 ($6.5 million), and more effective execution ($5.0 million). The volume increases reflect the higher demand for fluid control equipment. In addition, we redirected our focus in the loading systems business to become more selective in our pursuit of certain marine arm projects. We also re-engineered many internal processes which resulted in improved execution. Additionally, we restructured certain operations and began outsourcing activities for which we have realized cost efficiencies. The effect of these efforts was to significantly increase our margins when compared to 2004. The benefit of price increases implemented in 2005 was primarily offset by increased raw material costs.

2004 Compared With 2003

Energy Processing Systems revenue was higher in 2004 compared with 2003, with sales of measurement and material handling equipment contributing $31 million and $22 million, respectively, to the increase. Strong demand for measurement equipment for pipeline and tank truck applications was driven by the level of oil and gas prices, while higher sales of material handling equipment resulted primarily from increased demand for the bulk conveying systems needed for coal fired power generation. In addition, the favorable impact of foreign currency translation accounted for $12 million of the increase in segment revenue. Fluid control reported slightly higher revenue in 2004, as a $25 million increase in sales reflecting WECO®/Chiksan® product demand was almost completely offset by a decrease in sales of production manifold systems, the latter resulting from competitive pressure. The growth in sales of the WECO®/Chiksan® product line continued to reflect the impact of strong land based drilling activity in the U.S.

Energy Processing Systems operating profit was lower in 2004 compared with 2003, mainly as a result of a fourth quarter goodwill impairment charge amounting to $6.5 million associated with the blending and transfer product line. Also contributing to lower segment operating profit was a $3 million decrease in loading systems margins, reflecting competitive pressure and higher operating costs. The positive impact of higher volumes on profitability in material handling and measurement equipment, which amounted to $4 million and $3 million, respectively, partially offset the decrease in segment operating profit.

The 2004 goodwill impairment charge of $6.5 million ($6.1 million after tax) eliminated all remaining goodwill associated with the blending and transfer business. We experienced a lack of inbound orders in the blending and transfer product line for a sustained period of time. This was due, in part, to the volatility of oil and gas prices, which reduced the willingness of oil companies to invest capital to upgrade existing blending facilities or to invest in new blending capacity.

Outlook for 2006

In 2006, we expect Energy Processing Systems to deliver overall growth in operating profit over 2005. Increases are expected from fluid control and loading systems as a result of continued high market demand. Material handling systems should also generate higher profits due to increased bulk conveying project revenues, driven by increased coal fired power generation.

FoodTech

2005 Compared With 2004

FoodTech s revenue increased by 3%, or $13 million, in 2005 compared with 2004, with increased volume from domestic customers in the poultry processing and other food handling industries of approximately $30.8 million, offset primarily by lower volumes in tomato processing equipment of approximately $15.6 million. Additionally, foreign currency translation decreased our revenue by $3.7 million in 2005 compared to 2004.

Operating profit remained consistent with 2004 results. Sales volume and margin growth in poultry processing and freezing equipment generated an increase in profits over the prior year. The margin increase is a result of a shift toward higher margin projects and improved project execution. However, profits declined for both citrus and tomato processing equipment lines as a result of reduced volume attributable to the effects of an unusually low Florida citrus crop, resulting from the hurricanes in

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2004, and low capital investment of the tomato processing market. Additionally, foreign currency translation decreased profits by $3.3 million in 2005 compared to 2004.

2004 Compared With 2003

FoodTech revenue for 2004 was essentially flat compared with 2003. Higher volumes of freezing, portioning and cooking equipment in 2004 were responsible for an increase of $21 million in revenue, reflecting stronger demand in the North American and Asian markets. In addition, year over year changes in foreign currency translation resulted in a $19 million increase in revenue. These increases were largely offset by the $23 million negative impact on revenue resulting from lower volumes of fruit and vegetable processing equipment, primarily reflecting a 2004 decline in the global market for tomato processing equipment. To a lesser extent, the increase in FoodTech revenue was also offset by lower volumes of canning and citrus systems and the impact on revenue of the divestiture of our U.S. agricultural harvester product line in the fourth quarter of 2003.

FoodTech s operating profit was lower in 2004 compared with 2003, with a decrease of $4 million attributable to lower citrus volumes, and an additional $4 million decrease resulting from lower volumes of other fruit and vegetable processing equipment. The decline in profitability was partially offset by a $2 million increase in the freezing, portioning and cooking equipment businesses, primarily attributable to the positive impact of reduced expenses.

Outlook for 2006

Our FoodTech operating profit is expected to be higher in 2006 as compared to 2005 results. We anticipate a volume increase and improved profitability in our food processing equipment product lines, primarily sterilization and canning equipment. Additionally, we expect sustained investment in the poultry processing product lines with continued emphasis on margin improvements.

Airport Systems

2005 Compared With 2004

Airport Systems revenue was higher in the year ended December 31, 2005 compared with the prior year. Segment sales are affected by the profitability of our customers in the airline and air cargo markets. Almost all of the increase is from increased sales of ground support equipment to domestic freight carriers, ground handlers and international airlines. Our airport services business provided an incremental $15.0 million in revenue for 2005, primarily as the result of project work for the Dallas, Houston and Philadelphia airports. Sales of Halvorsen loaders declined, consistent with our forecast for Halvorsen loader shipments. Deliveries declined from 70 units in 2004 to 38 units in 2005. Sales of Halvorsen loaders fluctuate based on the status of governmental approval of funding and the requirements of the U.S. Air Force. Sales of Jetway® passenger boarding bridges were flat for the year as softness in the domestic passenger boarding bridge market during the fourth quarter of 2005 offset the sales improvements experienced in the prior quarters.

Airport Systems operating profit in the year ended December 31, 2005 increased compared with the prior year, primarily attributable to volume increases for ground support equipment and airport services, which generated an incremental $7.0 million in operating profit in 2005. Additionally, Airport Systems benefited from a $2.7 million gain on the sale of excess land adjacent to one of our facilities. The profit improvement was partially offset by reduced profits for Halvorsen loaders, driven by the decline in sales volume.

2004 Compared With 2003

Airport Systems revenue increased in 2004 compared with 2003. Higher revenues from sales of Jetway® passenger boarding bridges and ground support equipment each represented $26 million of the increase. Stronger sales of Jetway® passenger boarding bridges reflected increased deliveries to domestic airlines and, to a lesser extent, airport authorities. Ground support equipment revenue increased as a result of higher sales to ground handlers and cargo handling companies, primarily in North America, and the positive impact of foreign currency translation of $3 million. Airport Services sales grew by $7 million over the same period in the prior year due to new projects in the Dallas and Los Angeles airports. These increases were partially offset by the $7 million decrease in Halvorsen loader revenue, as deliveries decreased from 91 units in 2003 to 70 units in 2004.

Airport Systems operating profit in 2004 increased compared with 2003, primarily attributable to the volume increases in Jetway® and ground support equipment, which contributed to $5 million in incremental operating profit for the year. Reduced volume in Halvorsen loaders caused a $3 million decrease in operating profit for 2004.

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Outlook for 2006

We are projecting operating profit at Airport Systems for 2006 to be consistent with 2005 results. We expect growth in our commercial businesses, principally the ground support equipment business, to offset the absence of the land sale gain recognized in 2005.

Corporate Items

2005 Compared With 2004

Gains on sales of investments reflect the following transactions from 2004 and 2005. In November 2004, we received proceeds from MODEC, Inc. of $77.0 million in exchange for our interest in MODEC International LLC and recorded a gain of $60.4 million. The proceeds consisted of 3.0 billion yen, or $27.9 million, and 2.6 million common shares of MODEC, Inc., valued at $49.1 million at the transaction date. In September 2005, we sold our shares in MODEC, Inc. for $74.4 million, resulting in a $25.3 million gain. Also in 2005, we recognized a gain of $8.6 million on the sale of our interest in the GTL Microsystems joint venture.

Corporate expense for the year ended December 31, 2005 grew by 6% over the prior year, primarily due to higher incentive compensation expense.

Other expense, net, increased by $9.7 million compared to the prior-year period primarily due to foreign currency exchange losses. The increase also reflects $5.2 million higher LIFO expense and $4.2 million in increased stock-based compensation expense in 2005. These increases were partially offset by, among other things, a reduction in insurance reserves reflecting favorable benefit claim experience.

2004 Compared With 2003

In November 2004, we received proceeds from MODEC, Inc. of $77.0 million in exchange for our interest in MODEC International LLC and recorded a gain of $60.4 million ($36.1 million after tax).

Corporate expense in 2004 was higher when compared with the prior year, due primarily to higher Sarbanes-Oxley compliance costs.

The decrease in other expense, net, from the prior year is attributable to $3 million in lower stock-based compensation expense, $3 million in reduced costs related to our outsourcing of employee benefits administration and $2 million in favorable changes in foreign currency hedging results. These declines were partially offset by a $2 million increase in pension expense caused by lower discount rate and asset return assumptions.

Outlook for 2006

Our corporate expense is expected to be consistent with 2005 results. Other expense, net, will likely reflect higher stock-based compensation expense. We do not currently anticipate any significant gains on asset disposals. Net interest expense should decline as we continue to reduce our net debt and recognize interest income on cash investments in 2006.

Inbound Orders and Order Backlog

Inbound orders represent the estimated sales value of confirmed customer orders received during the reporting period.

	Inbound orders	
	Year Ended December 31,	
(In millions)	**2005**	**2004**
Energy Production Systems	$ 2,124.1	$ 1,829.8
Energy Processing Systems	631.9	460.9
Intercompany eliminations	(2.4)	(6.3)
Subtotal Energy Systems	2,753.6	2,284.4
FoodTech	526.7	550.9
Airport Systems	301.4	270.0
Intercompany eliminations	(8.4)	(9.0)
Total inbound orders	$ 3,573.3	$ 3,096.3

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Order backlog is calculated as the estimated sales value of unfilled, confirmed customer orders at the reporting date.

	Order backlog December 31,	
(In millions)	2005	2004
Energy Production Systems	$ 1,496.5	$ 1,222.7
Energy Processing Systems	214.9	104.8
Intercompany eliminations	(0.4)	(1.0)
Subtotal Energy Systems	1,711.0	1,326.5
FoodTech	130.1	142.7
Airport Systems	93.8	119.8
Intercompany eliminations	(1.4)	(1.9)
Total order backlog	$ 1,933.5	$ 1,587.1

The portion of total order backlog at December 31, 2005 that we project will be recorded as revenue after fiscal year 2006 is approximately $360.0 million.

Energy Production Systems order backlog at December 31, 2005 grew compared to the prior year reflecting increased orders for subsea systems, which reached $1.6 billion for 2005, and the timing of project execution. Subsea order backlog at December 31, 2005 included projects associated with all of the major offshore oil and gas producing regions, and included Chevron s Agbami project offshore Nigeria and BP s Block 18 Greater Plutonio project offshore Angola. Surface wellhead orders have increased by 45% during 2005, also contributing to the overall increase in backlog compared to 2004. Foreign currency translation, however, negatively impacted the December 31, 2005 balance of backlog by $84.9 million compared to December 31, 2004.

Energy Processing Systems order backlog at December 31, 2005 more than doubled relative to the prior year as all of our product lines showed year over year increases. Inbound orders grew by 37% compared to 2004, supported by increases in all of our product lines. The increase in orders is primarily attributable to continued expansion in land-based drilling activities, which creates demand for our fluid control products. Additionally, we have seen strong demand for our material handling products, including a $32 million order received in December 2005 for bulk material handling systems related to power generation.

FoodTech s order backlog at December 31, 2005 declined compared with the prior year as a result of lower orders for tomato processing equipment in the current year, which is attributed to lower capital spending in the industry. Order backlog for freezing and cooking equipment, which historically has represented the largest share of this segment s backlog, was flat relative to the prior year.

Airport Systems order backlog at December 31, 2005 declined 22% compared with the prior year, primarily as a result of a reduction in the order backlog for Halvorsen loaders. To a lesser extent, order backlog declined with deliveries of the initial RampSnake® orders in 2005.

Liquidity and Capital Resources

At December 31, 2005, our net debt was $103.0 million, compared with net debt of $39.0 million at December 31, 2004. Net debt includes short and long-term debt and the current portion of long-term debt, net of cash and cash equivalents. In 2005, we experienced significant growth in our Energy Systems businesses. As a result, we invested in working capital and made capital expenditures to support our expanding businesses. This spending contributed to our increase in net debt in 2005.

During the fourth quarter of 2005, we executed our plan to repatriate foreign earnings to the U.S. under the JOBS Act. To fund a portion of the repatriation plan, we restructured our external financing by shifting from domestic to foreign debt. This shift included the initiation of a new $370 million five-year revolving credit facility by FMC Technologies B.V., a wholly owned subsidiary in the Netherlands, and draws of $231.0 million on this facility during the fourth quarter. The foreign earnings were remitted to the U.S. through fourth quarter dividends. These proceeds will be used to fund domestic investments in accordance with the reinvestment plan approved by our Board of Directors.

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Cash flows for each of the years in the three-year period ended December 31, 2005, were as follows:

	Year Ended December 31,		
(In millions)	2005	2004	2003
Cash provided (required) by operating activities of continuing operations	$ (29.6)	$ 132.9	$ 150.4
Operating cash required by discontinued operations	(0.8)	(5.9)	(5.2)
Cash provided (required) by investing activities	8.8	(16.6)	(132.8)
Cash provided (required) by financing activities	54.6	(19.2)	(13.3)
Effect of exchange rate changes on cash and cash equivalents	(4.2)	3.9	(2.5)
Increase (decrease) in cash and cash equivalents	$ 28.8	$ 95.1	$ (3.4)

Operating Cash Flows

Operating activities of continuing operations consumed $29.6 million in 2005, compared to providing $132.9 million in the prior year. Higher investments in inventory, mostly in our Energy Systems businesses, represented a use of cash of $164.4 million in 2005 and were the primary contributor to the decline in cash flows from operating activities. Cash was also used in 2005 to fund income tax payments, including approximately $27 million for previously accrued income taxes in Norway and $25.5 million for taxes on the foreign earnings repatriated under the JOBS Act.

Cash Required by Discontinued Operations

Cash required by discontinued operations in 2005 declined relative to the preceding two years. These cash outflows represent payments for claims, claims administration and insurance coverage for product liabilities associated with equipment which had been manufactured by our discontinued businesses. The decrease in cash requirements is attributable to higher payments during 2004 and 2003 to settle outstanding claims.

Investing Cash Flows

Cash provided by investing activities in 2005 was $8.8 million, compared to cash required by investing activities of $16.6 million in 2004. The fluctuation is primarily attributable to two factors. We generated $67.2 million in higher proceeds from the sale of assets in 2005, which included $84.2 million from sales of our shares of MODEC, Inc. and our interest in the GTL Microsystems joint venture, than 2004, which included the $27.9 million cash inflow from the conversion of our interest in MODEC International LLC. This increase in cash inflows was partially offset by $41.6 million in higher capital spending in 2005, which rose to support our subsea business expansion in Malaysia, Nigeria and Angola.

Financing Cash Flows

Cash provided by financing activities was $54.6 million for 2005, compared to cash required by financing activities of $19.2 million for 2004. Our borrowings increased in the fourth quarter of 2005 as we incurred foreign debt to fund our repatriation of foreign earnings under the provisions of the JOBS Act. However, we also repaid our outstanding commercial paper borrowings during the fourth quarter. On a net basis, we had proceeds of $93.1 million from borrowings in 2005, compared to net payments of debt obligations of $58.4 million in the prior year. The net cash inflow from debt was partially offset by our purchase of $63.9 million of treasury shares for 2005. Additionally, we received $17.5 million less in proceeds from the issuance of stock during 2005, which was the result of fewer option exercises than the prior year.

Debt and Liquidity

Total borrowings at December 31, 2005 and 2004, comprised the following:

	December 31,	
	2005	**2004**
(In millions)		
Revolving credit facilities	$ 242.6	$
Commercial paper		149.8
Uncommitted credit facilities	2.9	2.2
Property financing	9.6	9.9
Other	0.8	1.2
Total borrowings	$ 255.9	$ 163.1

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Under the commercial paper program, and subject to available capacity under our $250 million committed revolving credit facility, we have the ability to access up to $250.0 million of short-term financing through our commercial paper dealers.

The following is a summary of our credit facilities at December 31, 2005:

(In millions) Description	Commitment amount	Debt outstanding	Commercial paper outstanding (a)	Letters of credit (b)	Unused capacity	Maturity
Five-year revolving credit facility	$ 250.0	$	$	$ 16.0	$ 234.0	November 2010
Five-year revolving credit facility	370.0	231.0			139.0	November 2010 **(c)**
Three-year revolving credit facility	17.2	11.6			5.6	December 2008
	$ 637.2	$ 242.6	$	$ 16.0	$ 378.6	

(a) Our available capacity under our $250 million five-year revolving credit facility is reduced by any outstanding commercial paper.

(b) The $250 million five-year revolving credit facility allows us to obtain a total of $150.0 million in standby letters of credit. Our available capacity is reduced by any outstanding letters of credit associated with this facility.

(c) Outstanding borrowings on the $370 million five-year revolving credit facility as of May 2006 convert to a term loan due and payable in a lump sum in November 2010. The unused portion of the facility at the conversion date will not be available for draws subsequent to this date. We expect to renegotiate the facility to maintain our overall credit availability.

Our revolving credit facilities provide the ability to refinance our short-term borrowings on a long-term basis; therefore, at December 31, 2005 we classified our borrowings on revolving credit facilities as long-term on our consolidated balance sheet.

Among other restrictions, the terms of the committed credit agreements include negative covenants related to liens and financial covenants related to debt to earnings ratios and interest coverage ratios. We are in compliance with all covenants as of December 31, 2005. Our $250 million and $370 million five-year revolving credit facilities maturing in November 2010 bear interest, based on our election, at either (a) a base rate determined by reference to the higher of (1) the agent s prime rate and (2) the federal funds rate plus 1/2 of 1% or (b) an interest rate of 55 basis points above the London Interbank Offered Rate (LIBOR). The margin over LIBOR is variable and is determined based on the Company s debt rating. The three-year revolving credit facility bears interest at either the Canadian Dollar prime rate or bankers acceptance rate.

We have interest rate swaps related to $150.0 million of our variable rate debt. The effect of these interest rate swaps, which were entered into during December 2005 and mature in June 2008, is to fix the effective annual interest rate on these borrowings at 5.25%. Our interest expense for the $150.0 million in variable rate debt subject to the interest rate swaps will reflect a lower effective rate through June 2008. Prior to entering into the new interest rate swaps, we sold our existing interest rate swaps, which had fixed the interest rate for $150.0 million of our variable rate debt. An unrealized $7.7 million gain will be amortized against the interest expense on the underlying debt through the original maturity of the swaps in June 2008. Therefore, after taking into account the amortization of the deferred gain, the effective interest rate on

$150.0 million of our variable rate borrowings will be approximately 3.2%.

Our uncommitted credit relates primarily to international lines of credit. Borrowings under these uncommitted facilities totaled $2.9 million and $2.2 million at December 31, 2005 and 2004, respectively.

We entered into a sale-leaseback agreement during the third quarter of 2004. We sold a building for $9.7 million in net proceeds, which were used to reduce other balance sheet debt. We are accounting for the transaction as a financing and are amortizing the obligation using an effective annual interest rate of 5.37% over the lease term of ten years. Our annual payments associated with this obligation total $0.8 million.

Other domestic and international borrowings totaled $0.8 million and $1.2 million at December 31, 2005 and 2004, respectively.

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Outlook for 2006

For 2006, we estimate capital expenditures will be in the range of $90 - $100 million, compared with 2005 capital spending of $91.8 million. The anticipated increase in spending is primarily attributable to ongoing work to support our subsea operations.

We are pursuing claims against Sonatrach related to costs that we incurred due to customer caused work stoppages, work required beyond the contract scope and other customer caused delays. We have not recognized the value of these claims in our financial statements. While we believe we have a contractual basis to pursue these claims, we expect to engage in further negotiations with Sonatrach and cannot predict the outcome of these negotiations nor their timing. Should the Company and Sonatrach not be able to reach resolution, the contract requires that disputes be resolved through arbitration before an international tribunal in Paris, France under International Chamber of Commerce rules.

It is possible that Sonatrach may draw upon a letter of credit we established with one of our lenders to support potential warranty claims on a recently completed project. The maximum potential cash amount that could be drawn under this letter of credit would be $12.6 million and the contingency expires in February 2007. We believe cash from operations and our credit facilities will fund a drawdown if necessary.

We are authorized to repurchase up to two million shares of our common stock. We announced plans to begin the repurchase of shares of our outstanding common stock in February 2005, and during 2005, we repurchased 1,750,856 shares for approximately $63.9 million. In February 2006, the Board of Directors approved the repurchase of an additional five million shares of the Company s issued and outstanding common stock. The timing and amount of further repurchases will depend on market conditions.

We currently expect to contribute approximately $14 million to our non-U.S. pension plans in 2006.

We plan to meet our cash requirements in 2006 with cash generated from operations. Additionally, we expect to generate free cash flows, which will allow us to pay off a portion of our outstanding debt and acquire short-term investments.

We continue to evaluate acquisitions, divestitures and joint ventures in the ordinary course of business.

Contractual Obligations and Off-Balance Sheet Arrangements

The following is a summary of our contractual obligations at December 31, 2005:

	Payments due by period				
(In millions)	**Total**	**Less than**	**1 - 3**	**3 5**	**After**

Contractual obligations	payments	1 year	years	years	5 years
Long-term debt (a)	$ 253.0	$ 0.4	$ 12.5	$ 232.0	$ 8.1
Short-term debt	2.9	2.9			
Capital lease obligations	0.1	0.1			
Operating leases	117.1	26.8	38.4	28.2	23.7
Unconditional purchase obligations (b)	168.6	157.2	11.1	0.2	0.1
Acquisition-related obligations (c)	1.0	1.0			
Total contractual obligations	$ 542.7	$ 188.4	$ 62.0	$ 260.4	$ 31.9

(a) Our available long-term debt is dependent upon our compliance with covenants, including negative covenants related to liens, and financial covenants related to debt to earnings and interest coverage ratios. We were in compliance with all covenants at December 31, 2005; however, any violation of covenants, other events of default, or changes in our credit rating could have a material impact on our ability to maintain our committed financing arrangements.

(b) In the normal course of business, we enter into agreements with our suppliers to purchase raw materials or services. These agreements include a requirement that our supplier provide products or services to our specifications and require us to make a firm purchase commitment to our supplier. As substantially all of these commitments are associated with purchases made to fulfill our customers orders, the costs associated with these agreements will ultimately be reflected in cost of sales on our consolidated statements of income.

(c) Acquisition-related obligations include the remaining amount owed associated with the 2003 acquisition of the RampSnake® product line. In addition, we also have a commitment to acquire the remaining ownership interest in CDS in 2009 at a purchase price of slightly less than 6.5 times the average of 45% of CDS 2007 and 2008 earnings before interest expense, income taxes, depreciation and amortization. At the current time, we are unable to estimate the amount of this commitment.

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The following is a summary of other off-balance sheet arrangements at December 31, 2005:

	Amount of commitment expiration per period				
(In millions)	**Total**	**Less than**	**1 - 3**	**3 - 5**	**After 5**
Other off-balance sheet arrangements	**amount**	**1 year**	**years**	**years**	**years**
Letters of credit and bank guarantees	$ 417.6	$ 166.8	$ 125.1	$ 67.2	$ 58.5
Surety bonds	128.7	55.0	73.7		
Third-party guarantees	0.4		0.4		
Total other off-balance sheet arrangements	$ 546.7	$ 221.8	$ 199.2	$ 67.2	$ 58.5

As collateral for our performance on certain sales contracts or as part of our agreements with insurance companies, we are contingently liable under letters of credit, surety bonds and other bank guarantees. In order to obtain these financial instruments, we pay fees to various financial institutions in amounts competitively determined in the marketplace. Our ability to generate revenue from certain contracts is dependent upon our ability to obtain these off-balance sheet financial instruments. These off-balance sheet financial instruments may be renewed, revised or released based on changes in the underlying commitment. Historically, our commercial commitments have not been drawn upon to a material extent; consequently, management believes it is not likely that there will be claims against these commitments that will have a negative impact on our key financial ratios or our ability to obtain financing.

Qualitative and Quantitative Disclosures about Market Risk

We are subject to financial market risks, including fluctuations in foreign currency exchange rates and interest rates. In order to manage and mitigate our exposure to these risks, we may use derivative financial instruments in accordance with established policies and procedures. We do not use derivative financial instruments where the objective is to generate profits solely from trading activities. At December 31, 2005 and 2004, our derivative holdings consisted of foreign currency forward contracts and interest rate swap agreements.

These forward-looking disclosures only address potential impacts from market risks as they affect our financial instruments. They do not include other potential effects which could impact our business as a result of changes in foreign currency exchange rates, interest rates, commodity prices or equity prices.

Foreign Currency Exchange Rate Risk

When we sell or purchase products or services, transactions are frequently denominated in currencies other than the particular operation s functional currency. Generally, we do not use financial instruments to hedge foreign currency transactions to the extent that a natural hedge exists. When foreign currency exposures exist, we may enter into foreign exchange forward contracts with third parties. Our hedging policy is designed to reduce the impact of foreign currency exchange rate movements, and we expect any gain or loss in the hedging portfolio to be offset by a corresponding gain or loss in the underlying exposure being hedged.

We hedge our net recognized foreign currency assets and liabilities to reduce the risk that our earnings and cash flows will be adversely affected by changes in the foreign currency exchange rates. We also hedge firmly committed, anticipated transactions in the normal course of business. The majority of these hedging instruments mature during 2006.

We use a sensitivity analysis to measure the impact on derivative instrument fair values of an immediate 10% adverse movement in the foreign currency exchange rates. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar and all other variables are held constant. We expect that changes in the fair value of derivative instruments will offset the changes in fair value of the underlying assets and liabilities on the balance sheet. To the extent that our derivative instruments are hedging anticipated transactions, a 10% increase in the value of the U.S. dollar would result in a decrease of $3.4 million in the net fair value of our derivative financial instruments at December 31, 2005. Changes in the derivative fair value will not have an impact on our results of operations unless these contracts are deemed to be ineffective.

Interest Rate Risk

Our debt instruments subject us to market risk associated with movements in interest rates. In June 2003, we entered into three floating-to-fixed interest rate swaps related to $150.0 million of our commercial paper borrowings. The effect of these interest rate swaps was to fix the effective annual interest rate on these borrowings at an average rate of 2.9%. In the fourth quarter of 2005, we paid our commercial paper borrowings and issued variable rate debt. We sold the existing interest rate swaps and deferred a gain of $7.7 million on the qualified hedged transaction. We were issued new swaps with an average

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fixed interest rate of 5.25% until the interest rate swaps mature in June 2008. The $7.7 million deferred gain will be amortized against the interest expense on the underlying debt through the maturity date of the original interest rate swaps in June 2008.

We use a sensitivity analysis to measure the impact on fair values (for interest rate swaps) of an immediate adverse movement in the interest rates of 50 basis points. This analysis was based on a modeling technique that measures the hypothetical market value resulting from a 50 basis point change in interest rates. This adverse change in the applicable interest rates would result in a decrease of $1.7 million in the net fair value of our interest rate swaps at December 31, 2005.

At December 31, 2005 we had unhedged variable rate debt of $106 million. Using sensitivity analysis to measure the impact of a 10% adverse movement in the interest rate, or 50 basis points, would result in an increase to interest expense of $0.5 million annually.

Critical Accounting Estimates

We prepare the consolidated financial statements of FMC Technologies in conformity with United States generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions about matters that are inherently uncertain. On an ongoing basis, our management re-evaluates these estimates, judgments and assumptions for reasonableness because of the critical impact that these factors have on the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed this disclosure. We believe that the following are the critical accounting estimates used in preparing our financial statements.

Percentage of Completion Method of Accounting

We record revenue on construction-type manufacturing and assembly projects using the percentage of completion method, where revenue is recorded as work progresses on each contract. There are several acceptable methods of measuring progress toward completion. Most frequently, we use the ratio of costs incurred to date to total estimated contract costs to measure this progress; however, there are also types of contracts where we consistently apply the ratio of units delivered to date or units of work performed as a percentage of total units because we have determined that these methods provide a more accurate measure of progress toward completion.

We execute contracts with our customers that clearly describe the equipment, systems and/or services that we will provide and the amount of consideration we will receive. After analyzing the drawings and specifications of the contract requirements, our project engineers estimate total contract costs based on their experience with similar projects and then adjust these estimates for specific risks associated with each project, such as technical risks associated with a new design. Costs associated with specific risks are estimated by assessing the probability that conditions will arise that will affect our total cost to complete the project. After work on a project begins, assumptions that form the basis for our calculation of total project cost are examined on a monthly basis and our estimates are updated to reflect new information as it becomes available.

Revenue recorded using the percentage of completion method amounted to $1,352.9 million, $1,169.7 million and $804.3 million for the years ended December 31, 2005, 2004, and 2003, respectively.

A significant portion of our total revenue recorded under the percentage of completion method relates to the Energy Production Systems business segment, primarily for subsea petroleum exploration equipment projects that involve the design, engineering, manufacturing and assembly of complex, customer-specific systems. The systems are not built from standard bills of material and typically require extended periods of time to construct.

Total estimated contract cost affects both the revenue recognized in a period as well as the reported profit or loss on a project. The determination of profit or loss on a contract requires consideration of contract revenue, change orders and claims, less costs incurred to date and costs to complete. Anticipated losses on contracts are recorded in full in the period in which they are identified. Profits are recorded based on the estimated project profit multiplied by the percentage complete.

The total estimated contract cost in percentage of completion accounting is a critical accounting estimate because it can materially affect revenue and cost of sales, and it requires us to make judgments about matters that are uncertain. There are many factors, including but not limited to resource price inflation, labor availability, productivity and weather that can affect the accuracy of our cost estimates and ultimately our future profitability. In the past, we have incurred losses as a result of unforeseen changes in our project costs, including in our Sonatrach contract.

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The amount of revenue recognized using the percentage of completion method is sensitive to our changes in estimates of total contract costs. If we had used a different estimate of total contract costs for each contract in progress at December 31, 2005 a 1% increase or decrease in the estimated margin earned on each contract would have increased or decreased total revenue and pre-tax income for the year ended December 31, 2005 by $12.8 million.

Inventory Valuation

Inventory is recorded at the lower of cost or net realizable value. In order to determine net realizable value, we evaluate each component of inventory on a regular basis to determine whether it is excess or obsolete. We record the decline in the carrying value of estimated excess or obsolete inventory as a reduction of inventory and as an expense included in cost of sales in the period it is identified. Our estimate of excess and obsolete inventory is a critical accounting estimate because it is highly susceptible to change from period to period. In addition, it requires management to make judgments about the future demand for inventory.

In order to quantify excess or obsolete inventory, we begin by preparing a candidate listing of the components of inventory that have not demonstrated usage within the most recent two-year period. This list is then reviewed with sales, production and materials management personnel to determine whether this list of potential excess or obsolete inventory items is accurate. Management considers as part of this evaluation whether there has been a change in the market for finished goods, whether there will be future demand for on-hand inventory items and whether there are components of inventory that incorporate obsolete technology.

Our estimate of excess or obsolete inventory is sensitive to changes in our assumptions about future sales. Had we assumed that future sales would be 10% higher or lower than those used in our forecast, the effect on our estimate of excess or obsolete inventory and pre-tax income for the year ended December 31, 2005, would have been an increase or decrease of $0.6 million, on a current cost basis.

Accounting for Income Taxes

In determining our current income tax provision, we assess temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our consolidated balance sheets. When we maintain deferred tax assets, we must assess the likelihood that these assets will be recovered through adjustments to future taxable income. To the extent we believe recovery is not likely, we establish a valuation allowance. We record an allowance reducing the asset to a value we believe will be recoverable based on our expectation of future taxable income. We believe the accounting estimate related to the valuation allowance is a critical accounting estimate because it is highly susceptible to change from period to period as it requires management to make assumptions about our future income over the lives of the deferred tax assets, and the impact of increasing or decreasing the valuation allowance is potentially material to our results of operations.

Forecasting future income requires us to use a significant amount of judgment. In estimating future income, we use our internal operating budgets and long-range planning projections. We develop our budgets and long-range projections based on recent results, trends, economic and industry forecasts influencing our segments performance, our backlog, planned timing of new product launches, and customer sales commitments. Significant changes in the expected realizability of the deferred tax asset would require that we provide an additional valuation allowance against the gross value of our total deferred tax assets, resulting in a reduction of net income.

As of December 31, 2005, we estimated that it is not likely that we will generate future taxable income in certain foreign jurisdictions in which we have cumulative net operating losses and, therefore, we have provided a valuation allowance against the related deferred tax assets. As of December 31, 2005, we estimated that it is more likely than not that we will have future taxable income in the United States to utilize our domestic deferred tax assets. Therefore, we have not provided a valuation allowance against any domestic deferred tax assets.

The need for a valuation allowance is sensitive to changes in our estimate of future taxable income. If our estimate of future taxable income was 25% lower than the estimate used, we would still generate sufficient taxable income to utilize such deferred tax assets.

Retirement Benefits

We provide most of our employees with certain retirement (pension) and postretirement (health care and life insurance) benefits. In order to measure the expense and obligations associated with these retirement benefits, management must make a variety of estimates, including discount rates used to value certain liabilities, expected return on plan assets set aside to fund these costs, rate of compensation increase, employee turnover rates, retirement rates, mortality rates and other factors. We

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update these estimates on an annual basis or more frequently upon the occurrence of significant events. These accounting estimates bear the risk of change due to the uncertainty attached to the estimate as well as the fact that these estimates are difficult to measure. Different estimates used by management could result in our recognizing different amounts of expense over different periods of time.

We use third-party specialists to assist management in evaluating our assumptions as well as appropriately measuring the costs and obligations associated with these retirement benefits. The discount rate and expected return on plan assets are based primarily on investment yields available and the historical performance of our plan assets. They are critical accounting estimates because they are subject to management s judgment and can materially affect net income.

Pension expense was $23.7 million, $25.2 million and $17.9 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The discount rate used affects the periodic recognition of the interest cost component of net periodic pension cost. The discount rate is based on rates at which the pension benefit obligation could effectively be settled on a present value basis. To determine the weighted average discount rate, we review long-term, high quality corporate bonds at our determination date and use a model that matches the projected benefit payments for our plans to coupons and maturities from high quality bonds. Significant changes in the discount rate, such as those caused by changes in the yield curve, the mix of bonds available in the market, the duration of selected bonds, and the timing of expected benefit payments may result in volatility in pension expense and minimum pension liabilities. We reduced the discount rate for our domestic and certain of our international plans during 2005. The weighted average discount rate declined from 5.8% to 5.5% in 2005, after decreasing in 2004 from 6.1% in 2003.

Our pension expense is sensitive to changes in our estimate of discount rate. Holding other assumptions constant, for a 100 basis point reduction in the discount rate, annual pension expense would increase by approximately $17.5 million before taxes. Holding other assumptions constant, for a 100 basis point increase in the discount rate, annual pension expense would decrease by approximately $20.1 million before taxes.

Net periodic pension cost includes an underlying expected long-term rate of asset return. Our estimate of the expected rate of return on plan assets is based primarily on the historical performance of plan assets, current market conditions, our asset allocation and long-term growth expectations. Our actual returns on plan assets on trailing 5-year and trailing 10-year bases have exceeded the 2005 estimated long-term rate of return of 8.6%. Our actual returns on plan assets were 10.7% and 11.8% in 2005 and 2004, respectively. The expected return on plan assets is recognized as part of the net periodic pension cost. The difference between the expected return and the actual return on plan assets is amortized over the expected remaining service life of employees, so there is a lag time between the market s performance and its impact on plan results.

Our pension expense is sensitive to changes in our estimate of expected rate of return on plan assets. Holding other assumptions constant, an increase or decrease of 100 basis points in the expected rate of return on plan assets would increase or decrease annual pension expense by approximately $6.3 million before taxes.

Impact of Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during

fiscal years beginning after June 15, 2005. We have not determined the impact that the adoption of SFAS No. 151 will have on our results of operations, financial position or cash flows.

In November 2005, the Financial Accounting Standards Board issued Staff Position FAS 123R-3, Transition Election Related to Accounting for the Tax Effects of Share Based Payment Awards, which allowed a one-time election to adopt one of two acceptable methodologies for calculating the initial additional paid in capital (APIC) pool. We have until September 30, 2006 to make our election. In subsequent periods, the APIC pool will be increased by tax benefits from stock-based compensation and decreased by tax losses caused when the recorded stock-based compensation for book purposes exceeds the allowable tax deduction. We are evaluating the two options for computing the initial APIC pool and will make an election for the transition method in 2006.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding market risks is incorporated herein by reference from the section entitled Qualitative and Quantitative Disclosures about Market Risk in Item 7 of this Annual Report on Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(In millions, except per share data)	**2005**	**2004**	**2003**
Revenue	$ 3,226.7	$ 2,767.7	$ 2,307.1
Costs and expenses:			
Cost of sales	2,673.5	2,265.6	1,845.9
Asset impairment (Note 6)		6.5	
Selling, general and administrative expense	369.7	340.4	312.6
Research and development expense	51.5	50.4	45.3
Total costs and expenses	3,094.7	2,662.9	2,203.8
Net gain on disposal of assets (Note 3)	38.3	59.7	2.3
Minority interests	(2.5)	1.4	(1.1)
Income before interest income, interest expense and income taxes	167.8	165.9	104.5
Interest income	3.5	1.4	1.2
Interest expense	(9.0)	(8.3)	(10.1)
Income before income taxes	162.3	159.0	95.6
Provision for income taxes (Note 9)	56.2	42.3	26.7
Net income	$ 106.1	$ 116.7	$ 68.9
Earnings per share (Note 2)			
Basic	$ 1.54	$ 1.73	$ 1.04
Diluted	$ 1.50	$ 1.68	$ 1.03
Weighted average shares outstanding (Note 2)			
Basic	69.0	67.6	66.1
Diluted	70.8	69.3	66.9

The accompanying notes are an integral part of the consolidated financial statements.

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FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 152.9	$ 124.1
Trade receivables, net of allowances of $9.6 in 2005 and $10.9 in 2004	736.3	671.7
Inventories (Note 4)	449.4	316.3
Prepaid expenses	21.1	15.0
Other current assets	68.4	90.0
Total current assets	1,428.1	1,217.1
Investments	22.3	76.6
Property, plant and equipment, net (Note 5)	353.3	332.8
Goodwill (Note 6)	117.4	116.8
Intangible assets, net (Note 6)	61.1	72.0
Other assets	33.8	31.6
Deferred income taxes (Note 9)	79.6	47.0
Total assets	$ 2,095.6	$ 1,893.9
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 8)	$ 3.3	$ 2.7
Accounts payable, trade and other	366.2	368.8
Advance payments and progress billings	348.6	297.5
Accrued payroll	81.7	60.8
Income taxes payable	28.3	57.0
Other current liabilities	207.5	176.6
Current portion of accrued pension and other postretirement benefits (Note 11)	15.2	28.7
Deferred income taxes (Note 9)	7.4	3.3
Total current liabilities	1,058.2	995.4
Long-term debt, less current portion (Note 8)	252.6	160.4
Accrued pension and other postretirement benefits, less current portion (Note 11)	21.8	20.6
Reserve for discontinued operations (Note 10)	6.1	6.9
Other liabilities	50.2	42.5
Minority interests in consolidated companies	7.2	5.9
Commitments and contingent liabilities (Note 17)		
Stockholders equity (Note 13):		
Preferred stock, $0.01 par value, 12.0 shares authorized; no shares issued in 2005 or 2004		
Common stock, $0.01 par value, 195.0 shares authorized; 70.0 and 68.8 shares issued in 2005 and 2004, respectively; 68.1 and 68.7 shares outstanding in 2005 and 2004, respectively	0.7	0.7
Common stock held in employee benefit trust, at cost, 0.1 shares in 2005 and 2004	(3.6)	(2.4)
Common stock held in treasury, at cost, 1.8 shares in 2005, no shares in 2004	(63.9)	
Capital in excess of par value of common stock	681.6	637.8
Retained earnings	193.2	87.1
Accumulated other comprehensive loss	(108.5)	(61.0)

Total stockholders equity	699.5	662.2
Total liabilities and stockholders equity	$ 2,095.6	$ 1,893.9

The accompanying notes are an integral part of the consolidated financial statements.

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FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In millions)	**2005**	**2004**	**2003**
Cash provided (required) by operating activities of continuing operations:			
Net income	$ 106.1	$ 116.7	$ 68.9
Adjustments to reconcile income to cash provided (required) by operating activities of continuing operations:			
Depreciation	53.3	53.5	48.2
Amortization	12.6	10.0	9.5
Net gain on disposal of assets	(38.3)	(59.7)	(2.3)
Asset impairment charge		6.5	
Employee benefit plan costs	41.0	38.4	33.8
Deferred income tax (benefit) provision	(11.7)	(8.9)	3.5
Other	12.1	4.3	5.5
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade receivables, net	(102.6)	(105.3)	(89.8)
Inventories	(164.4)	(17.7)	13.5
Other current assets and other assets	(5.6)	(37.7)	(15.7)
Accounts payable, trade and other	18.1	85.3	49.6
Advance payments and progress billings	66.9	28.7	69.4
Accrued payroll, other current liabilities and other liabilities	53.4	21.4	(22.1)
Income taxes payable	(37.4)	33.3	2.8
Accrued pension and other postretirement benefits, net	(33.1)	(35.9)	(24.4)
Cash provided (required) by operating activities of continuing operations	(29.6)	132.9	150.4
Operating cash required by discontinued operations revised (Note 10)	(0.8)	(5.9)	(5.2)
Cash provided (required) by investing activities:			
Acquisitions (net of cash acquired) and joint ventures		(2.9)	(46.4)
Capital expenditures	(91.8)	(50.2)	(65.2)
Retirement of sale-leaseback obligations			(35.9)
Proceeds from disposal of assets	103.0	35.8	13.0
Other	(2.4)	0.7	1.7
Cash provided (required) by investing activities	8.8	(16.6)	(132.8)
Cash provided (required) by financing activities:			
Net increase (decrease) in short-term debt	0.9	(17.8)	(39.1)
Net increase (decrease) in commercial paper	(149.8)	(0.2)	150.0
Proceeds from issuance of long-term debt	242.0	9.7	
Repayment of long-term debt		(50.1)	(131.2)
Proceeds from exercise of stock options	21.1	38.6	7.5
Purchase of treasury stock	(63.9)		
Excess tax benefits	5.5		
Net (increase) decrease in common stock held in employee benefit trust	(1.2)	0.6	(0.5)
Cash provided (required) by financing activities	54.6	(19.2)	(13.3)

Effect of exchange rate changes on cash and cash equivalents	(4.2)	3.9	(2.5)
Increase (decrease) in cash and cash equivalents	28.8	95.1	(3.4)
Cash and cash equivalents, beginning of year	124.1	29.0	32.4
Cash and cash equivalents, end of year	$ 152.9	$ 124.1	$ 29.0
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of interest capitalized)	$ 8.6	$ 8.0	$ 9.5
Cash paid for income taxes (net of refunds received)	$ 90.8	$ 18.1	$ 21.5

The accompanying notes are an integral part of the consolidated financial statements.

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FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In millions)	Common stock	Common stock held in treasury and employee benefit trust	Capital in excess of par value of common stock	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total	Comprehensive income (loss)
Balance at December 31, 2002	$ 0.7	$ (2.5)	$ 560.0	$ (98.5)	$ (145.6)	$ 314.1	
Net income				68.9		68.9	$ 68.9
Issuance of common stock			7.5			7.5	
Excess tax benefits on stock-based payment arrangements			1.8			1.8	
Net purchases of common stock for employee benefit trust, at cost (Note 13)		(0.5)				(0.5)	
Stock-based compensation (Note 12)			15.2			15.2	
Foreign currency translation adjustment					26.1	26.1	26.1
Minimum pension liability adjustment (net of income taxes of $8.1) (Note 11)					12.5	12.5	12.5
Net deferral of hedging gains (net of income taxes of $1.1) (Note 14)					1.7	1.7	1.7
Other			(4.0)			(4.0)	
							$ 109.2
Balance at December 31, 2003	$ 0.7	$ (3.0)	$ 580.5	$ (29.6)	$ (105.3)	$ 443.3	
Net income				116.7		116.7	$ 116.7
Issuance of common stock			38.6			38.6	
Excess tax benefits on stock-based payment arrangements			6.3			6.3	
Net sales of common stock for employee benefit trust, at cost (Note 13)		0.6				0.6	
Stock-based compensation (Note 12)			12.1			12.1	
Foreign currency translation adjustment					37.8	37.8	37.8
Minimum pension liability adjustment (net of income taxes of $1.1) (Note 11)					(1.7)	(1.7)	(1.7)
Net deferral of hedging gains (net of income taxes of $1.1) (Note 14)					2.1	2.1	2.1
Unrealized gain on investment (net of income taxes of $4.0) (Note 3)					6.1	6.1	6.1
Other			0.3			0.3	
							$ 161.0
Balance at December 31, 2004	$ 0.7	$ (2.4)	$ 637.8	$ 87.1	$ (61.0)	$ 662.2	

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FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (CONTINUED)

(In millions)	Common stock	Common stock held in treasury and employee benefit trust	Capital in excess of par value of common stock	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total	Comprehensive income (loss)
Balance at December 31, 2004	$ 0.7	$ (2.4)	$ 637.8	$ 87.1	$ (61.0)	$ 662.2	
Net income				106.1		106.1	$ 106.1
Issuance of common stock			21.1			21.1	
Excess tax benefits on stock-based payment arrangements			5.5			5.5	
Purchase of treasury stock (Note 13)		(63.9)				(63.9)	
Net purchases of common stock for employee benefit trust, at cost (Note 13)		(1.2)				(1.2)	
Stock-based compensation (Note 12)			16.3			16.3	
Foreign currency translation adjustment					(37.4)	(37.4)	(37.4)
Minimum pension liability adjustment (net of income taxes of $0.4) (Note 11)					(0.5)	(0.5)	(0.5)
Net deferral of hedging gains (net of income taxes of $2.4) (Note 14)					(3.5)	(3.5)	(3.5)
Unrealized gain on investment (net of income taxes of $4.0) (Note 3)					(6.1)	(6.1)	(6.1)
Other			0.9			0.9	
							$ 58.6
Balance at December 31, 2005	$ 0.7	$ (67.5)	$ 681.6	$ 193.2	$ (108.5)	$ 699.5	

The accompanying notes are an integral part of the consolidated financial statements.

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FMC TECHNOLOGIES, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation FMC Technologies, Inc. and consolidated subsidiaries (FMC Technologies or the Company) designs, manufactures and services sophisticated machinery and systems for its customers through its business segments: Energy Systems (comprising Energy Production Systems and Energy Processing Systems), FoodTech and Airport Systems. The Company s consolidated financial statements have been prepared in United States dollars and in accordance with United States generally accepted accounting principles (GAAP).

Use of estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances. In particular, judgment is used in areas such as revenue recognition using the percentage of completion method of accounting, making estimates associated with the valuation of inventory and income tax assets, and accounting for retirement benefits and contingencies.

Principles of consolidation The consolidated financial statements include the accounts of FMC Technologies and its majority-owned subsidiaries and affiliates. Intercompany accounts and transactions are eliminated in consolidation.

Reclassifications Certain prior-year amounts have been reclassified to conform to the current year s presentation.

Revenue recognition Revenue from equipment sales is recognized either upon transfer of title to the customer (which is upon shipment or when customer-specific acceptance requirements are met) or under the percentage of completion method. Service revenue is recognized as the service is provided. For multiple-element revenue arrangements, such as the sale of equipment with a service agreement, the Company allocates the contract value to the various elements based on objective evidence of fair value for each element and recognizes revenue consistent with the nature of each deliverable.

The percentage of completion method of accounting is used for construction-type manufacturing and assembly projects that involve significant design and engineering effort in order to satisfy detailed customer-supplied specifications. Under the percentage of completion method, revenue is recognized as work progresses on each contract. The Company primarily applies the ratio of costs incurred to date to total estimated contract costs to measure this ratio; however, there are certain types of contracts where it consistently applies the ratio of units delivered to date or units of work performed as a percentage of total units, because it has been determined that these methods provide a more accurate measure of progress toward completion. If it is not possible to form a reliable estimate of progress toward completion, no revenues or costs are recognized until the project is complete or substantially complete. Any expected losses on construction-type contracts in progress are charged to earnings, in total, in the period the losses are identified.

Modifications to construction-type contracts, referred to as change orders, effectively change the provisions of the original contract, and may, for example, alter the specifications or design, method or manner of performance, equipment, materials, sites, and/or period for completion of the work. If a change order represents a firm price commitment from a customer, the Company accounts for the revised estimate as if it had been included in the original estimate, effectively recognizing the pro rata impact of the new estimate on its calculation of progress toward completion in the period in which the firm commitment is received. If a change order is unpriced: (1) the Company includes the costs of contract performance in its calculation of progress toward completion in the period in which the costs are incurred or become probable; and (2) when it is determined that the revenue is probable of recovery, the Company includes the change order revenue, limited to the costs incurred to date related to the change order, in its calculation of progress toward completion. Margin is not recorded on unpriced change orders unless realization is assured beyond a reasonable doubt. The assessment of realization may be based upon the Company s previous experience with the customer or based upon the Company receiving a firm price commitment from the customer.

Progress billings generally are issued contingent on completion of certain phases of the work as stipulated in the contract. Revenue in excess of progress billings on contracts accounted for under the percentage of completion method amounted to $174.7 million and $206.5 million at December 31, 2005 and 2004, respectively. These unbilled receivables are reported in trade receivables on the consolidated balance sheets. Progress billings and cash collections in excess of revenue recognized on a contract are classified as advance payments and progress billings within current liabilities on the consolidated balance sheets.

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Cash equivalents The Company considers investments in all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

Trade receivables The Company pro