FMC TECHNOLOGIES INC
Form 10-Q
October 26, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2006

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

(281) 591-4000

(Registrant s telephone number, including area code)

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 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

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

Class	Outstanding as of October 20, 2006
Common Stock, par value $0.01 per share	**68,028,739**

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FMC Technologies, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income (Unaudited)

(In millions, except per share data)	**Three Months Ended**		**Nine Months Ended**	
	September 30,		**September 30,**	
	2006	**2005**	**2006**	**2005**
Revenue	$ 960.8	$ 776.1	$ 2,828.5	$ 2,270.2
Costs and expenses:				
Cost of sales	759.1	639.7	2,228.0	1,895.7
Selling, general and administrative expense	105.0	91.6	306.9	271.8
Research and development expense	12.6	12.1	36.5	38.8
Total costs and expenses	876.7	743.4	2,571.4	2,206.3
Net gain on disposal of assets	1.1	25.4	1.2	30.3
Minority interests	(0.3)	(0.4)	(1.4)	(1.5)
Income before net interest expense and income taxes	84.9	57.7	256.9	92.7
Net interest expense	1.4	1.6	5.2	4.0
Income before income taxes	83.5	56.1	251.7	88.7
Provision for income taxes	22.5	10.4	80.1	13.6
Income from continuing operations	61.0	45.7	171.6	$ 75.1
Income from discontinued operations, net of tax (Note 11)			1.9	
Net income	$ 61.0	$ 45.7	$ 173.5	$ 75.1
Basic earnings per share (Note 2):				
Income from continuing operations	$ 0.89	$ 0.66	$ 2.50	$ 1.09
Income from discontinued operations			0.03	
Basic earnings per share	$ 0.89	$ 0.66	$ 2.53	$ 1.09
Diluted earnings per share (Note 2):				
Income from continuing operations	$ 0.87	$ 0.65	$ 2.44	$ 1.06
Income from discontinued operations			0.03	
Diluted earnings per share	$ 0.87	$ 0.65	$ 2.47	$ 1.06
Weighted average shares outstanding (Note 2):				
Basic	68.7	68.9	68.7	69.0
Diluted	70.4	70.8	70.4	70.8

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

FMC Technologies, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

(In millions, except per share data)	September 30, 2006 (Unaudited)	December 31, 2005
Assets:		
Current assets:		
Cash and cash equivalents	$ 58.7	$ 152.9
Trade receivables, net of allowances of $8.9 in 2006 and $9.6 in 2005	837.1	736.3
Inventories (Note 4)	602.0	449.4
Prepaid expenses	23.3	21.1
Other current assets	88.7	68.4
Total current assets	1,609.8	1,428.1
Investments	23.0	22.3
Property, plant and equipment, net of accumulated depreciation of $486.1 in 2006 and $452.9 in 2005	416.0	353.3
Goodwill	121.1	117.4
Intangible assets, net	65.7	61.1
Deferred income taxes	72.9	79.6
Other assets	39.3	33.8
Total assets	$ 2,347.8	$ 2,095.6
Liabilities and stockholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 5.1	$ 3.3
Accounts payable, trade and other	376.8	366.2
Advance payments and progress billings	410.9	348.6
Other current liabilities	312.0	289.2
Income taxes payable	33.3	28.3
Current portion of accrued pension and other postretirement benefits	33.6	15.2
Deferred income taxes	16.5	7.4
Total current liabilities	1,188.2	1,058.2
Long-term debt, less current portion	217.7	252.6
Accrued pension and other postretirement benefits, less current portion	18.9	21.8
Reserve for discontinued operations	2.2	6.1
Other liabilities	58.1	50.2
Minority interests in consolidated companies	7.8	7.2
Commitments and contingent liabilities (Note 10)		
Stockholders equity:		
Preferred stock, $0.01 par value, 12.0 shares authorized; no shares issued in 2006 or 2005		
Common stock, $0.01 par value, 195.0 shares authorized; 71.1 and 70.0 shares issued in 2006 and 2005, respectively; 67.9 and 68.1 shares outstanding in 2006 and 2005, respectively	0.7	0.7
Common stock held in employee benefit trust, at cost, 0.1 shares outstanding in 2006 and 2005	(4.8)	(3.6)
Common stock held in treasury, at cost; 3.1 and 1.8 shares in 2006 and 2005, respectively	(143.0)	(63.9)
Capital in excess of par value of common stock	719.2	681.6
Retained earnings	366.7	193.2
Accumulated other comprehensive loss	(83.9)	(108.5)
Total stockholders equity	854.9	699.5
Total liabilities and stockholders equity	$ 2,347.8	$ 2,095.6

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

FMC Technologies, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(In millions)	**Nine Months Ended September 30, 2006**	**Nine Months Ended September 30, 2005**
Cash provided (required) by operating activities of continuing operations:		
Net income	$ 173.5	$ 75.1
Adjustments to reconcile net income to cash provided (required) by operating activities of continuing operations:		
Depreciation	42.0	39.7
Amortization	10.6	8.9
Employee benefit plan costs	38.0	31.1
Deferred income tax provision (benefit)	9.1	(8.5)
Gain on disposal of assets	(1.2)	(30.3)
Income from discontinued operations, net of tax	(1.9)	
Other	8.8	7.3
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	(82.1)	(9.4)
Inventories	(140.8)	(171.6)
Other current assets and other assets	(33.7)	16.7
Accounts payable, trade and other	(4.6)	(46.1)
Advance payments and progress billings	57.4	64.8
Other current liabilities and other liabilities	16.8	58.0
Income taxes payable	12.4	(43.7)
Accrued pension and other postretirement benefits, net	(9.1)	(26.7)
Cash provided (required) by operating activities of continuing operations	95.2	(34.7)
Operating cash required by discontinued operations revised*	(0.9)	(0.3)
Cash provided (required) by investing activities:		
Capital expenditures	(96.8)	(50.7)
Proceeds from disposal of property, plant and equipment and other long-lived assets	4.8	83.7
Acquisitions, net of cash acquired	(9.5)	
Cash (required) provided by investing activities	(101.5)	33.0
Cash provided (required) by financing activities:		
Net increase in short-term debt and current portion of long-term debt	1.6	0.3
Net increase in commercial paper		29.9
Repayments of long-term debt	(35.3)	(0.4)
Proceeds from issuance of common stock upon exercise of stock options	21.9	18.3
Increase in common stock held in treasury	(87.9)	(30.5)
Excess tax benefits	12.0	4.0
Net increase in common stock held in employee benefit trust	(1.1)	(0.7)
Cash (required) provided by financing activities	(88.8)	20.9
Effect of exchange rate changes on cash and cash equivalents	1.8	(3.4)
(Decrease) increase in cash and cash equivalents	(94.2)	15.5
Cash and cash equivalents, beginning of period	152.9	124.1
Cash and cash equivalents, end of period	$ 58.7	$ 139.6

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* All cash required by discontinued operations related solely to operating activities.

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

FMC Technologies, Inc. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements, and notes thereto (the statements), of FMC Technologies, Inc. and its consolidated subsidiaries (FMC Technologies) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As permitted under those rules, certain footnotes or other financial information that are normally required by United States generally accepted accounting principles can be condensed or omitted. Therefore, these statements should be read in conjunction with the audited consolidated financial statements, and notes thereto, which are included in our Annual Report on Form 10-K for the year ended December 31, 2005.

In the opinion of management, the statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of our financial condition and operating results as of and for the periods presented. Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these statements may not be representative of those for the full year. Certain reclassifications have been made to prior period amounts to conform to the current period s presentation.

Note 2: Earnings Per Share (EPS)

The following schedule is a reconciliation of the basic and diluted EPS computations:

(In millions, except per share data)	**Three Months Ended September 30, 2006**	**Three Months Ended September 30, 2005**	**Nine Months Ended September 30, 2006**	**Nine Months Ended September 30, 2005**
Basic earnings per share:				
Net income	$ 61.0	$ 45.7	$ 173.5	$ 75.1
Weighted average number of shares outstanding	68.7	68.9	68.7	69.0
Basic earnings per share	$ 0.89	$ 0.66	$ 2.53	$ 1.09
Diluted earnings per share:				
Net income	$ 61.0	$ 45.7	$ 173.5	$ 75.1
Weighted average number of shares outstanding	68.7	68.9	68.7	69.0
Effect of dilutive securities:				
Options on common stock	0.8	1.1	0.9	1.1
Restricted stock	0.9	0.8	0.8	0.7
Total shares and diluted securities	70.4	70.8	70.4	70.8
Diluted earnings per share	$ 0.87	$ 0.65	$ 2.47	$ 1.06

Note 3. Allowance for Contract Loss

FMC Technologies Floating Systems, Inc., a subsidiary of FMC Technologies, entered into a $239 million contract to supply an offshore oil loading system to Sonatrach-TRC, the Algerian Oil and Gas Company (Sonatrach) in 2002. Two amendments to the contract were executed in 2004 pertaining to changes in contract scope, eventually increasing the ultimate contract value to $252 million. During 2004 and 2005, we incurred incremental costs in executing the project caused by delays from adverse weather conditions and customer actions as well as problems testing and installing the offshore pipelines and onshore equipment. As a result, we recorded charges of $54.9 million and $21.4 million in 2005 and 2004, respectively.

In the fourth quarter of 2005, we submitted claims to Sonatrach seeking recovery of costs incurred due to customer invoked work stoppages, work required beyond the contract scope and other customer-caused delays. In February 2006, we completed final testing of the installed equipment and received customer acceptance in accordance with the contract. Under the terms of the contract, Sonatrach was eligible to invoke penalties for late delivery as the customer acceptance date was beyond the date at which the maximum late penalties could be assessed.

In the second quarter of 2006, we concluded negotiations with Sonatrach that resolved these issues and claims. The resolution of these issues resulted in a third contract amendment with Sonatrach increasing the previously amended contract value by $15.0 million, which was included in revenue in the consolidated statements of income in the second quarter of 2006. The agreement also released us from assessment of late penalties. Net of legal and other fees and including other changes in estimated project costs, we reported pretax income of $17.1 million on this project in the second quarter of 2006.

While we are subject to a warranty period on this project, we have completed all other contractual obligations as of September 30, 2006.

Note 4: Inventories

Inventories consisted of the following:

(In millions)	September 30, 2006	December 31, 2005
Raw materials	$ 166.1	$ 135.4
Work in process	192.0	125.5
Finished goods	404.7	334.4
Gross inventories before LIFO reserves and valuation adjustments	762.8	595.3
LIFO reserves and valuation adjustments	(160.8)	(145.9)
Net inventories	$ 602.0	$ 449.4

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (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 adopted SFAS No. 151 as of January 1, 2006, and the adoption did not have a material effect on our results of operations, financial position or cash flows.

Note 5: Derivative Financial Instruments

The consolidated balance sheets include the following amounts representing the fair value of derivative instruments:

(In millions)	September 30, 2006	December 31, 2005
Other current assets	$ 25.6	$ 15.0
Other assets	$ 10.2	$ 6.6
Other current liabilities	$ 22.1	$ 14.6
Other liabilities	$ 8.2	$ 7.9

The net fair value of derivative instruments held on the balance sheet was $5.5 million in assets and $0.9 million in liabilities at September 30, 2006 and December 31, 2005, respectively. Cash flow hedges accounted for $3.8 million in net assets and $3.0 million in net liabilities at September 30, 2006 and December 31, 2005, respectively. Other derivative instruments accounted for $1.7 million and $2.1 million in net assets at September 30, 2006 and December 31, 2005, respectively. The mark-to-market changes in effective cash flow hedges are deferred until the underlying hedged transactions are executed and are included in other comprehensive income on the consolidated balance sheet. Net deferred gains, net of income taxes, totaled $5.5 million and $4.2 million at September 30, 2006 and December 31, 2005, respectively. Mark-to-market changes of all other derivative instruments are recorded in cost of sales on the consolidated statements of income and offset the mark-to-market changes of the underlying exposures.

There was no material hedge ineffectiveness related to outstanding cash flow hedges recorded in earnings during the three or nine month periods ended September 30, 2006 or 2005.

Note 6: Warranty Obligations

We provide warranties of various lengths and terms to certain of our customers based on standard terms and conditions and negotiated agreements. We provide for the estimated cost of warranties at the time revenue is recognized for products where reliable, historical experience of warranty claims and costs exists. We also provide warranty liability when additional specific obligations are identified. The obligation reflected in the consolidated balance sheets is based on historical experience by product and considers failure rates and the related costs in correcting a product failure. Warranty cost and accrual information is as follows:

(In millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Balance at beginning of period	$ 19.3	$ 17.2	$ 19.1	$ 12.7
Expense for new warranties	5.2	2.7	15.5	15.3
Adjustments to existing accruals	(0.1)		(1.5)	(0.4)
Claims paid	(6.3)	(3.7)	(15.0)	(11.4)
Balance at end of period	$ 18.1	$ 16.2	$ 18.1	$ 16.2

Note 7: Pension and Other Postretirement Benefit Costs

The components of net periodic benefit cost were as follows:

	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions)	2006	2005	2006	2005
Service cost	$ 7.9	$ 6.4	$ 23.8	$ 19.5
Interest cost	9.9	9.1	30.5	27.8
Expected return on plan assets	(12.6)	(11.2)	(38.1)	(34.2)
Amortization of transition asset	(0.1)	(0.1)	(0.3)	(0.3)
Amortization of prior service cost	0.1	0.2	0.3	0.6
Amortization of actuarial losses, net	2.6	0.6	7.4	4.0
Net periodic benefit cost	$ 7.8	$ 5.0	$ 23.6	$ 17.4

	Other Postretirement Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions)	2006	2005	2006	2005
Service cost	$ 0.2	$ 0.2	$ 0.4	$ 0.5
Interest cost	0.2	0.4	0.9	1.4
Amortization of prior service benefit	(0.6)	(0.6)	(2.0)	(1.4)
Amortization of actuarial losses, net		(0.2)		(0.2)
Net periodic benefit (income) cost	$ (0.2)	$ (0.2)	$ (0.7)	$ 0.3

For the three and nine months ended September 30, 2006, we made contributions to our pension plans of $1.7 million and $8.4 million, respectively. Substantially all of these contributions were made to the U.K. and Norway qualified pension plans. During the remainder of 2006, we anticipate contributing approximately $25 million to our pension plans, including a $17 million discretionary contribution to our U.S. qualified pension plan.

Note 8: Stock-Based Compensation

On October 1, 2005, we adopted the provisions of SFAS No. 123R, Share-Based Payment, which modified the recognition of share-based compensation by (i) incorporating an estimate of forfeitures in the calculation of current expense and (ii) adjusting the recognition period for new awards that accelerate vesting upon retirement to reflect the lesser of the stated vesting period or the period until the employee becomes retirement eligible. As we previously accounted for our stock-based compensation under the fair value provisions of SFAS No. 123, Accounting for Stock-Based Compensation, the adoption of SFAS No. 123R did not have a significant impact on our financial position or results of operations.

We sponsor a share-based compensation plan and have granted awards primarily in the form of stock options and nonvested stock awards (also known as restricted stock in the plan document). We recognize compensation expense and related income tax benefits for awards under the plan. The recorded amounts for the three and nine months ended September 30, 2006 and 2005 are as follows:

	Three Months Ended	Nine Months Ended
	September 30,	September 30,

(In millions)	2006	2005	2006	2005
Stock options	$ 0.3	$ 1.0	$ 1.0	$ 2.9
Restricted stock	4.7	3.3	13.3	9.0
Other	0.1	0.4	0.9	0.6
Total stock-based compensation expense	$ 5.1	$ 4.7	$ 15.2	$ 12.5
Income tax benefits related to stock-based compensation expense	$ 2.0	$ 1.8	$ 5.9	$ 4.9

During the nine months ended September 30, 2006 and 2005, we granted the following restricted stock awards to employees:

(Number of shares in thousands)	2006 Shares	2006 Weighted-average grant date fair value	2005 Shares	2005 Weighted-average grant date fair value
Time-based	380		548	
Performance-based	94*			
Market-based	47*			
Current year awards through September 30	521	$ 48.56	548	$ 33.67

* Assumes maximum payout

Historically, we have granted our employees time-based restricted share awards that vest three or four years from the grant date, depending on the type of award. The fair value of these time-based awards is determined using the market value of our common stock on the grant date. Compensation cost is recognized over the lesser of the stated vested period or the period until the employee reaches age 62, the retirement eligible age under the plan.

In 2006, we also granted restricted stock awards with performance and market conditions. The vesting period for these awards is three years from the grant date.

For current year performance-based awards, total actual payouts may vary from zero to 93,804 shares and will be dependent upon our performance relative to a peer group of companies with respect to EBITDA growth and return on investment for the year ending December 31, 2006. Compensation cost is measured based on the current expected outcome of the performance conditions and may be adjusted until the performance period ends.

For current year market-based awards, actual payouts may vary from zero to 46,902 shares, contingent upon our performance relative to the same peer group of companies with respect to total shareholder return for the year ending December 31, 2006. Compensation cost for these awards is calculated using the grant date fair market value, as estimated using Monte Carlo simulation, and is not subject to change based on future events.

In November 2005, the Financial Accounting Standards Board (FASB) 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. During the third quarter of 2006, we elected to adopt the transition guidance for the APIC pool in paragraph 81 of SFAS No. 123R. 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. As of September 30, 2006, our APIC pool totaled $24.6 million.

Note 9: Stockholders Equity

There were no dividends declared during the nine months ended September 30, 2006 or 2005.

We have been authorized by our Board of Directors to repurchase up to seven million shares of our issued and outstanding common stock. During the nine months ended September 30, 2006 and 2005, we made the following purchases under the buyback program:

(In millions, except share data)	**2006**		**2005**	
	Shares	**$**	**Shares**	**$**
Total purchased to date January 1,	1,750,856	$ 63.9		$
Treasury stock repurchases first quarter	729,800	35.2	170,700	5.7
Total purchased to date March 31,	2,480,656	99.1	170,700	5.7
Treasury stock repurchases second quarter	82,000	5.0	657,356	19.8
Total purchased to date June 30,	2,562,656	104.1	828,056	25.5
Treasury stock repurchases third quarter	805,500	47.7	125,000	5.0
Total purchased to date September 30,	3,368,156	151.8	953,056	30.5
Treasury stock repurchases fourth quarter	*	*	797,800	33.4
Total purchased to date December 31,	*	*	1,750,856	$ 63.9

* - not meaningful

We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under our employee stock plans. The treasury shares are accounted for using the cost method.

During the nine months ended September 30, 2006, 1.3 million shares were issued in connection with our incentive compensation plan, of which 0.2 million shares were reissued from treasury stock. During the year ended December 31, 2005, 1.2 million shares were issued. No shares were reissued from treasury stock in 2005.

Comprehensive income (loss) consisted of the following:

(In millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income	$ 61.0	$ 45.7	$ 173.5	$ 75.1
Foreign currency translation adjustments	8.2	8.8	23.3	(18.9)
Net deferral of hedging gains (losses), net of tax	(6.3)	0.5	1.3	
Unrealized gain on available-for-sale investment, net of tax		(9.3)		(6.1)
Minimum pension liability adjustments, net of tax		(1.5)		(0.1)
Comprehensive income	$ 62.9	$ 44.2	$ 198.1	$ 50.0

Accumulated other comprehensive income (loss) consisted of the following:

(In millions)	September 30, 2006	December 31, 2005
Cumulative foreign currency translation adjustments	$ (62.3)	$ (85.6