

HARSCO CORP  
Form 10-K  
March 13, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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 1-3970

**HARSCO CORPORATION**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

23-1483991  
(I.R.S. employer identification number)

350 Poplar Church Road, Camp Hill, Pennsylvania  
(Address of principal executive offices)

17011  
(Zip Code)

Registrant's telephone number, including area code 717-763-7064

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

Title of each class  
Common stock, par value \$1.25 per share  
Preferred stock purchase rights

Name of each  
exchange on which registered  
New York Stock Exchange and  
Pacific Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO   
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the Company's voting stock held by non-affiliates of the Company as of June 30, 2005 was \$2,271,446,562.

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

<u>Classes</u>	<u>Outstanding at February 28, 2006</u>
Common stock, par value \$1.25 per share	41,835,886

**DOCUMENTS INCORPORATED BY REFERENCE**

Selected portions of the 2006 Proxy Statement are incorporated by reference into Part III of this Report.

The Exhibit Index (Item No. 15) located on pages 94 to 98 incorporates several documents by reference as indicated therein.

## HARSCO CORPORATION AND SUBSIDIARY COMPANIES

### PART I

#### Item 1. Business

##### (a) General Development of Business

Harsco Corporation ("the Company") is a diversified, multinational provider of market-leading industrial services and engineered products. The Company's operations fall into three reportable segments: Mill Services, Access Services and Gas Technologies, plus an "all other" category labeled Engineered Products and Services. The Company has locations in 45 countries, including the United States. The Company was incorporated in 1956.

The Company's executive offices are located at 350 Poplar Church Road, Camp Hill, Pennsylvania 17011. The Company's main telephone number is (717) 763-7064. The Company's Internet website address is [www.harsco.com](http://www.harsco.com). Through this Internet website (found in the "Investor Relations" link) the Company makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and all amendments to those reports, as soon as reasonably practicable after these reports are electronically filed or furnished to the Securities and Exchange Commission. Information contained on the Company's website is not incorporated by reference into this Annual Report, and you should not consider information contained on the Company's website as part of this Annual Report.

The Company's principal lines of business and related principal business drivers are as follows:

##### Principal Lines of Business

- Outsourced, on-site mill services under long-term contracts
- Scaffolding, forming, shoring and other access-related services, rentals and sales
- Railway track maintenance services and equipment
  
- Industrial grating products
  
- Industrial abrasives and roofing granules
  
- Powder processing equipment and heat transfer products
- Air-cooled heat exchangers
- Gas control and containment products
- Cryogenic containers and industrial cylinders
  
- Valves
  
- Propane Tanks
- Filament-wound composite cylinders

##### Principal Business Drivers

- Steel mill production and capacity utilization
- Outsourcing of services
- Non-residential construction
- Annual industrial and building maintenance cycles
- Domestic and international railway track maintenance-of-way capital spending
- Outsourcing of track maintenance and new track construction by railroads
- Industrial production
- Non-residential construction
- Industrial and infrastructure surface preparation and restoration
- Residential roof replacement
- Pharmaceutical, food and chemical production
- Commercial and institutional boiler requirements
- Natural gas drilling and transmission
  
- General industrial production and industrial gas production
- Use of industrial fuel and refrigerant gases
- Respiratory care market
- Consumer barbeque grills market
- Use of propane as a primary and/or backup fuel
- Self-contained breathing apparatus (SCBA) market

· Natural gas vehicle (NGV) market

The Company reports segment information using the “management approach” in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (SFAS 131). This approach is based on the way management organizes and reports the segments within the enterprise for making operating decisions and assessing performance. The Company’s reportable segments are identified based upon differences in products, services and markets served. These segments and the types of products and services offered are more fully described below. Historical information has been reclassified for comparative purposes.

In 2005, 2004 and 2003, the United States contributed sales of \$1.2 billion, \$1.0 billion and \$0.9 billion, equal to 42%, 42% and 43% of total sales, respectively. In 2005, 2004 and 2003, the United Kingdom contributed sales of \$0.5 billion each year, equal to 20%, 21% and 21% of total sales, respectively. No single customer represented 10% or more of the Company's sales during 2005, 2004 and 2003. There were no significant inter-segment sales.

(b) Financial Information about Segments

Financial information concerning industry segments is included in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

(c) Narrative Description of Business

(1) A narrative description of the businesses by reportable segment is as follows:

**Mill Services Segment - 38% of consolidated sales for 2005**

The Mill Services Segment, which consists of the MultiServ Division, is the Company’s largest operating segment in terms of revenues and operating income. MultiServ is the world’s largest provider of on-site, outsourced mill services to the global steel and metals industries. MultiServ provides its services on a long-term contract basis, supporting each stage of the metal-making process from initial raw material handling to post-production by-product processing and on-site recycling. Working as a specialized, high-value-added services provider, MultiServ rarely takes ownership of its customers’ raw materials or finished products. Similar services are provided to the producers of non-ferrous metals, such as aluminum, copper and nickel. The Company’s multi-year Mill Services contracts had estimated future revenues of \$4.3 billion at December 31, 2005. This provides the Company with a substantial base of long-term revenues. Approximately 58% of these revenues are expected to be recognized by December 31, 2008. The remaining revenues are expected to be recognized between January 1, 2009 and December 31, 2014.

MultiServ’s geographic reach to over 30 countries, and its increasing range of services, enhance the Company’s financial and operating balance. In 2005, this Segment’s revenues were generated in the following regions:

<b>Mill Services Segment</b>	
<b>Region</b>	<b>2005 Percentage of Revenues</b>
Europe	49%
North America	23%
Latin America (a)	12%
Asia/Pacific	8%
Middle East and Africa	8%

(a) Including Mexico.

For 2005, 2004 and 2003, the Mill Services Segment's percentage of consolidated sales was 38%, 40% and 39%, respectively.

**Access Services Segment - 29% of consolidated sales for 2005**

The Access Services Segment includes the Company's SGB Group, Hünnebeck Group GmbH and Patent Construction Systems Divisions. The Company's Access Services Segment leads the access industry as one of the world's most complete providers of scaffolding, shoring, forming and other access solutions. The U.K.-based SGB Group Division operates from a network of international branches throughout Europe, the Middle East and Asia/Pacific; the Germany-based Hünnebeck Division serves Europe and the Middle East, while the U.S.-based Patent Construction Systems Division serves the Americas. Major services include the rental and sale of scaffolding,

powered access equipment, shoring and concrete forming products. The Company also provides access design engineering services, on-site installation and dismantling services, and a variety of other access equipment services. These businesses serve principally the non-residential construction and industrial maintenance markets.

The Company's access services are provided through branch locations in approximately 27 countries. In 2005, this Segment's revenues were generated in the following regions:

<b>Access Services Segment</b>	
<b>Region</b>	<b>2005 Percentage of Revenues</b>
Europe	67%
North America	22%
Middle East and Africa	9%
Asia/Pacific	2%

For 2005, 2004 and 2003, the Access Services Segment's percentage of consolidated sales was 29%, 28% and 29%, respectively.

#### **Gas Technologies Segment - 13% of consolidated sales for 2005**

The Gas Technologies Segment includes the Company's Harsco GasServ Division. The Segment's manufacturing and service facilities in the United States, Europe, Australia, Malaysia and China comprise an integrated manufacturing network for gas containment and control products. This global operating presence and product breadth provide economies of scale and multiple code production capability, enabling Harsco GasServ to serve as a primary source to the world's leading industrial gas producers and distributors, as well as regional and local customers. In 2005, approximately 86% of this Segment's revenues were generated in the United States.

The Company's gas containment products include cryogenic gas storage tanks; high pressure and acetylene cylinders; propane tanks; and composite vessels for industrial and commercial gases, natural gas vehicles (NGV) and other products. The Company's gas control products include valves and regulators serving a variety of markets, including the industrial gas, commercial refrigeration, life support and outdoor recreation industries.

For 2005, 2004 and 2003, the Gas Technologies Segment's percentage of consolidated sales was 13%, 14% and 14%, respectively.

#### **Engineered Products and Services ("all other") Category - 20% of consolidated sales for 2005**

The Engineered Products and Services ("all other") Category includes the Harsco Track Technologies, Reed Minerals, IKG Industries, Patterson-Kelley and Air-X-Changers Divisions. Approximately 87% of this category's revenues originate in the United States.

Export sales for this Category totaled \$116.6 million, \$101.2 million and \$71.1 million in 2005, 2004 and 2003, respectively. In 2005, 2004 and 2003 export sales for the Harsco Track Technologies Division were \$80.0 million, \$76.3 million and \$52.8 million, respectively, which included sales to Europe, Asia, the Middle East and Africa.

Harsco Track Technologies is a global provider of equipment and services to maintain, repair and construct railway track. The Company's railway track maintenance services provide high-technology comprehensive track maintenance and new track construction support to railroad customers worldwide. The railway track maintenance equipment product class includes specialized track maintenance equipment used by private and government-owned railroads and

urban transit systems worldwide.

Reed Minerals' roofing granules and industrial abrasives are produced from utility coal slag at a number of locations throughout the United States. The Company's Black Beauty® abrasives are used for industrial surface preparation, such as rust removal and cleaning of bridges, ship hulls and various structures. Roofing granules are sold to residential roofing shingle manufacturers, primarily for the replacement market. This Division is the United States' largest manufacturer of slag abrasives and third largest manufacturer of residential roofing granules.

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IKG Industries manufactures a varied line of industrial grating products at several plants in North America. These products include a full range of bar grating configurations, which are used mainly in industrial flooring, safety and security applications in the power, paper, chemical, refining and processing industries.

Patterson-Kelley is a leading manufacturer of powder processing equipment such as blenders, dryers and mixers for the chemical, pharmaceutical and food processing industries and heat transfer products such as water heaters and boilers for commercial and institutional applications.

Air-X-Changers is a leading supplier of custom-designed and manufactured air-cooled heat exchangers for the natural gas industry. The Company's heat exchangers are the primary apparatus used to condition natural gas during recovery, compression and transportation from underground reserves through the major pipeline distribution channels.

For 2005, 2004 and 2003, the Engineered Products and Services ("all other") Category's percentage of consolidated sales was 20%, 18% and 18%, respectively.

- (1) The products and services of the Company include a number of product groups. These product groups are more fully discussed in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." The product groups that contributed 10% or more as a percentage of consolidated sales in any of the last three fiscal years are set forth in the following table:

<b>Product Group</b>	<b>Percentage of Consolidated Sales</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Mill Services	<b>38%</b>	40%	39%
Access Services	<b>29%</b>	28%	29%
Industrial Gas Products	<b>13%</b>	14%	14%

- (1) New products and services are added from time to time; however, in 2005 none required the investment of a material amount of the Company's assets.

- (1) The manufacturing requirements of the Company's operations are such that no unusual sources of supply for raw materials are required. The raw materials used by the Company include principally steel and, to a lesser extent, aluminum, which are usually readily available. The profitability of the Company's manufactured products are affected by changing purchase prices of steel and other materials and commodities. Beginning in 2004, the price paid for steel and certain other commodities increased significantly compared with prior years. In 2005, the cost increases moderated for certain commodities. However, if steel or other material costs associated with the Company's manufactured products increase and the costs cannot be passed on to the Company's customers, operating income would be adversely affected. Additionally, decreased availability of steel or other materials, such as carbon fiber used to manufacture filament-wound composite cylinders, could affect the Company's ability to produce manufactured products in a timely manner. If the Company cannot obtain the necessary raw materials for its manufactured products, then revenues, operating income and cash flows will be adversely affected.

- (1) (iv) While the Company has a number of trademarks, patents and patent applications, it does not consider that any material part of its business is dependent upon them.

- (1) The Company furnishes products and materials and certain industrial services within the Access Services and Gas Technologies Segments and the Engineered Products and Services ("all other") Category that are seasonal in nature. As a result, the Company's sales and net income for the first quarter ending March 31 are normally lower than the second, third and fourth quarters. Additionally, the Company has historically generated the majority of its cash flows in the third and fourth quarters (periods ending September 30 and December 31). This is a direct result of

normally higher sales and income during the latter part of the year. The Company's historical revenue patterns and cash provided by operating activities were as follows:

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**Historical Revenue Patterns**

<b>In millions</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
First Quarter Ended March 31	\$ <b>640.1</b>	\$ 556.3	\$ 487.9	\$ 458.6	\$ 505.0
Second Quarter Ended June 30	<b>696.1</b>	617.6	536.4	510.3	510.1
Third Quarter Ended September 30	<b>697.5</b>	617.3	530.2	510.5	510.3
Fourth Quarter Ended December 31	<b>732.5</b>	710.9	564.0	497.3	499.7
Totals	\$ <b>2,766.2</b>	\$ 2,502.1	\$ 2,118.5	\$ 1,976.7	\$ 2,025.2 (a)

(a)Does not total due to rounding.

**Historical Cash Provided by Operations**

<b>In millions</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
First Quarter Ended March 31	\$ <b>48.1</b>	\$ 32.4	\$ 31.2	\$ 9.0	\$ 2.6
Second Quarter Ended June 30	<b>86.3</b>	64.6	59.2	71.4	65.1
Third Quarter Ended September 30	<b>98.1</b>	68.9	64.1	83.3	66.1
Fourth Quarter Ended December 31	<b>82.7</b>	104.6	108.4	90.1	106.9
Totals	\$ <b>315.3 (a)</b>	\$ 270.5	\$ 262.8 (a)	\$ 253.8	\$ 240.6 (a)

(a)Does not total due to rounding.

- (1) The practices of the Company relating to working capital are similar to those practices of other industrial service (vi) providers or manufacturers servicing both domestic and international industrial services and commercial markets. These practices include the following:
- Standard accounts receivable payment terms of 30 days to 60 days, with progress payments required for certain long-lead-time or large orders.
  - Standard accounts payable payment terms of 30 days to 90 days.

· Inventories are maintained in sufficient quantities to meet forecasted demand. Due to the time required to manufacture certain railway maintenance equipment to customer specifications, inventory levels of this business tend to increase during the production phase and then decline when the equipment is sold.

- (1) The Company as a whole is not dependent upon any one customer for 10% or more of its revenues. However, the
- (vii) Mill Services Segment is dependent largely on the global steel industry and in 2005, there were three customers that each provided in excess of 10% of this segment's revenues under multiple long-term contracts at several mill sites, compared with two such customers for the years 2004 and 2003. The loss of any one of the contracts would not have a material adverse effect upon the Company's financial position or cash flows; however, it could have a material effect on quarterly or annual results of operations. Additionally, these customers have significant accounts receivable balances. In December 2005, the Company acquired the Northern Hemisphere mill services operations of Brambles Industrial Services ("BISNH"). This acquisition has increased the Company's corresponding concentration of credit risk to these customers. Further consolidation in the global steel industry is also possible. Should transactions occur involving some of the steel industry's larger companies that are customers of the Company, it would result in an increase in concentration of credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. In an effort to mitigate the increased concentration of credit risk, the Company is considering the purchase of credit insurance for part of its receivable portfolio.
- (1) (viii) Backlog of orders was \$275.8 million and \$243.0 million as of December 31, 2005 and 2004, respectively. It is expected that approximately 32% of the total backlog at December 31, 2005 will not be filled during 2006. The Company's backlog is seasonal in nature and tends to follow in the same pattern as sales and net income which is discussed in section (1) (v) above. Backlog for scaffolding, shoring and forming services and for roofing granules and slag abrasives is not included in the total backlog because it is generally not quantifiable, due to the timing and nature of the products and services provided. Contracts for the Mill

Services Segment are also excluded from the total backlog. These contracts have estimated future revenues of \$4.3 billion at December 31, 2005. For additional information regarding backlog, see the Backlog section included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- (1) (ix) At December 31, 2005, the Company had no material contracts that were subject to renegotiation of profits or termination at the election of the U.S. Government.
  
- (1) The Company encounters active competition in all of its activities from both larger and smaller companies who
- (x) produce the same or similar products or services, or who produce different products appropriate for the same uses.
  
- (1) The expense for product development activities was \$2.7 million, \$2.6 million and \$3.3 million in 2005, 2004
- (xi) and 2003, respectively. For additional information regarding product development activities, see the Research and Development section included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
  
- (1) The Company has become subject, as have others, to stringent air and water quality control legislation. In
- (xii) general, the Company has not experienced substantial difficulty complying with these environmental regulations in the past, and does not anticipate making any material capital expenditures for environmental control facilities. While the Company expects that environmental regulations may expand, and that its expenditures for air and water quality control will continue, it cannot predict the effect on its business of such expanded regulations. For additional information regarding environmental matters see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data."
  
- (1) (xiii) As of December 31, 2005, the Company had approximately 21,000 employees.

(d) Financial Information about Geographic Areas

Financial information concerning foreign and domestic operations is included in Note 14, Information by Segment and Geographic Area, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." Export sales totaled \$171.0 million, \$139.3 million and \$108.5 million in 2005, 2004 and 2003, respectively.

(e) Available Information

Information is provided in Part I, Item 1 (a), "General Development of Business."

## Item 1A. Risk Factors

### *Market risk.*

In the normal course of business, the Company is routinely subjected to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-U.S. dollar-denominated assets and liabilities, other examples of risk include collectibility of receivables, volatility of the financial markets and their effect on pension plans, and global economic and political conditions.

### *Cyclical industry and economic conditions may adversely affect the Company's businesses.*

The Company's businesses are subject to general economic slowdowns and cyclical conditions in the industries served. In particular,

- The Company's Mill Services business may be adversely impacted by slowdowns in steel mill production, excess capacity, consolidation or bankruptcy of steel producers or a reversal or slowing of current outsourcing trends in the steel industry;
- The Company's Access Services business may be adversely impacted by slowdowns in non-residential construction and annual industrial and building maintenance cycles;

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- The railway track maintenance business may be adversely impacted by developments in the railroad industry that lead to lower capital spending or reduced maintenance spending;
- The industrial abrasives and roofing granules business may be adversely impacted by reduced home resales or economic conditions that slow the rate of residential roof replacement, or by slowdowns in the industrial and infrastructure refurbishment industries;
- The industrial grating business may be adversely impacted by slowdowns in non-residential construction and industrial production;
- The Air-X-Changers business is affected by cyclical conditions present in the natural gas industry. A high demand for natural gas is currently creating increased demand for the Company's air-cooled heat exchangers. However, a slowdown in natural gas production could adversely affect the Air-X-Changers business; and
- The Company's Gas Technologies business may be adversely impacted by reduced industrial production and lower demand for industrial gases, slowdowns in demand for medical cylinders, valves and consumer barbecue grills, or lower demand for natural gas vehicles.

***The Company's defined benefit pension expense is directly affected by the equity and bond markets and a downward trend in those markets could adversely impact the Company's future earnings. An upward trend in the equity and bond markets could positively affect the Company's future earnings.***

In addition to the economic issues that directly affect the Company's businesses, changes in the performance of equity and bond markets, particularly in the United Kingdom and the United States, impact actuarial assumptions used in determining annual pension expense, pension liabilities and the valuation of the assets in the Company's defined benefit pension plans. The downturn in financial markets during 2000, 2001 and 2002 negatively impacted the Company's pension expense and the accounting for pension assets and liabilities. This resulted in an increase in pre-tax defined benefit pension expense from continuing operations of approximately \$20.8 million for calendar year 2002 compared with 2001 and \$17.7 million for calendar year 2003 compared with 2002. The upturn in certain financial markets beginning in 2003 and certain plan design changes (discussed below) contributed to a decrease in pre-tax defined benefit pension expense from continuing operations of approximately \$3.8 million for 2005 compared with 2004, and approximately \$5.4 million for 2004 compared with 2003. An upward trend in capital markets would likely result in a decrease in future unfunded obligations and pension expense. This could also result in an increase to Stockholders' Equity and a decrease in the Company's statutory funding requirements. If the financial markets deteriorate, it would most likely have a negative impact on the Company's pension expense and the accounting for pension assets and liabilities. This could result in a decrease to Stockholders' Equity and an increase in the Company's statutory funding requirements.

In response to the adverse market conditions, during 2002 and 2003 the Company conducted a comprehensive global review of its pension plans in order to formulate a plan to make its long-term pension costs more predictable and affordable. The Company implemented design changes for most of these plans during 2003. The principal change involved converting future pension benefits for many of the Company's non-union employees in both the U.K. and U.S. from defined benefit plans to defined contribution plans as of January 1, 2004. This conversion is expected to make the Company's pension expense more predictable and affordable and less sensitive to changes in the financial markets.

The Company's pension committee continues to evaluate alternative strategies to further reduce overall pension expense including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that are likely to reduce future

pension expense volatility and minimize risk.

***The Company's global presence subjects it to a variety of risks arising from doing business internationally.***

The Company operates in 45 countries, including the United States. The Company's global footprint exposes it to a variety of risks that may adversely affect results of operations, cash flows or financial position. These include the following:

- periodic economic downturns in the countries in which the Company does business;
- fluctuations in currency exchange rates;

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- customs matters and changes in trade policy or tariff regulations;
- imposition of or increases in currency exchange controls and hard currency shortages;
- changes in regulatory requirements in the countries in which the Company does business;
- higher tax rates and potentially adverse tax consequences including restrictions on repatriating earnings, adverse tax withholding requirements and "double taxation";
  - longer payment cycles and difficulty in collecting accounts receivable;
  - complications in complying with a variety of international laws and regulations;
- political, economic and social instability, civil unrest and armed hostilities in the countries in which the Company does business;
  - inflation rates in the countries in which the Company does business;
- laws in various international jurisdictions that limit the right and ability of subsidiaries to pay dividends and remit earnings to affiliated companies unless specified conditions are met; and,
- uncertainties arising from local business practices, cultural considerations and international political and trade tensions.

If the Company is unable to successfully manage the risks associated with its global business, the Company's financial condition, cash flows and results of operations may be negatively affected.

The Company has operations in several countries in the Middle East, including Bahrain, Egypt, Saudi Arabia, United Arab Emirates and Qatar, which are geographically close to Iraq and other countries with a continued high risk of armed hostilities. During 2005, 2004 and 2003, these countries contributed approximately \$32.7 million, \$25.5 million and \$16.4 million, respectively, to the Company's operating income. Additionally, the Company has operations in and sales to countries that have encountered outbreaks of communicable diseases (e.g., Acquired Immune Deficiency Syndrome (AIDS) and others). Should such outbreaks worsen or spread to other countries, the Company may be negatively impacted through reduced sales to and within those countries and other countries impacted by such diseases.

***Exchange rate fluctuations may adversely impact the Company's business.***

Fluctuations in foreign exchange rates between the U.S. dollar and the approximately 40 other currencies in which the Company conducts business may adversely impact the Company's operating income and income from continuing operations in any given fiscal period. Approximately 58% of the Company's sales and approximately 67% and 69% of the Company's operating income from continuing operations for the years ended December 31, 2005 and 2004, respectively, were derived from operations outside the United States. More specifically, during both 2005 and 2004, approximately 20% and 21%, respectively, of the Company's revenues were derived from operations in the U.K. Additionally, approximately 18% and 17% of the Company's revenues were derived from operations with the euro as their functional currency during 2005 and 2004, respectively. Given the structure of the Company's revenues and expenses, an increase in the value of the U.S. dollar relative to the foreign currencies in which the Company earns its revenues generally has a negative impact on operating income, whereas a decrease in the value of the U.S. dollar tends to have the opposite effect. The Company's principal foreign currency exposures are to the British pound sterling and the euro, and the exposure to these currencies, as well as other foreign currencies, is expected to increase in 2006 due

to the fourth quarter acquisitions of Hünnebeck and the Northern Hemisphere mill services operations of Brambles Industrial Services (“BISNH”).

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Compared with the corresponding period in 2004, the average values of major currencies changed as follows in relation to the U.S. dollar during 2005, impacting the Company's sales and income:

- British pound sterling      Weakened by 1%
- euro                              Neutral
- South African rand        Neutral
- Brazilian real                Strengthened by 17%
- Australian dollar            Strengthened by 3%

Compared with exchange rates at December 31, 2004, the values of major currencies changed as follows as of December 31, 2005:

- British pound sterling      Weakened by 10%
- euro                              Weakened by 13%
- South African rand        Weakened by 11%
- Brazilian real                Strengthened by 14%
- Australian dollar            Weakened by 6%

The Company's foreign currency exposures increase the risk of income statement, balance sheet and cash flow volatility. If the above currencies change materially in relation to the U.S. dollar, the Company's financial position, results of operations, or cash flows may be materially affected.

To illustrate the effect of foreign currency exchange rate changes in certain key markets of the Company, in 2005, revenues would have been approximately 1% or \$14.8 million less and operating income would have been approximately 1% or \$2.8 million less if the average exchange rates for 2004 were utilized. A similar comparison for 2004 would have decreased revenues approximately 4% or \$108.9 million, while operating income would have been approximately 4% or \$8.1 million less if the average exchange rates for 2004 would have remained the same as 2003. If the U.S. dollar weakens in relation to the euro and British pound sterling, the Company would expect to see a positive impact on future sales and income from continuing operations as a result of foreign currency translation.

Currency changes result in assets and liabilities denominated in local currencies being translated into U.S. dollars at different amounts than at the prior period end. These currency changes resulted in decreased net assets of \$54.4 million at December 31, 2005 when compared with December 31, 2004, and increased net assets of \$46.2 million at December 31, 2004 when compared with December 31, 2003.

The Company seeks to reduce exposures to foreign currency transaction fluctuations through the use of forward exchange contracts. At December 31, 2005, the notional amount of these contracts was \$157.9 million, and over 90% of these contracts will mature within the first quarter of 2006. The Company does not hold or issue financial instruments for trading purposes, and it is the Company's policy to prohibit the use of derivatives for speculative purposes.

Although the Company engages in foreign currency forward exchange contracts and other hedging strategies to mitigate foreign exchange risk, hedging strategies may not be successful or may fail to offset the risk.

In addition, competitive conditions in the Company's manufacturing businesses may limit the Company's ability to increase product prices in the face of adverse currency movements. Sales of products manufactured in the United States for the domestic and export markets may be affected by the value of the U.S. dollar relative to other currencies. Any long-term strengthening of the U.S. dollar could depress demand for these products and reduce sales and may cause translation gains or losses due to the revaluation of accounts payable, accounts receivable and other asset and liability accounts. Conversely, any long-term weakening of the U.S. dollar could improve demand for these products

and increase sales and may cause translation gains or losses due to the revaluation of accounts payable, accounts receivable and other asset and liability accounts.

*Negative economic conditions may adversely impact the ability of the Company's customers to meet their obligations to the Company on a timely basis and impact the valuation of the Company's assets.*

If a downturn in the economy occurs, it may adversely impact the ability of the Company's customers to meet their obligations to the Company on a timely basis and could result in bankruptcy filings by them. If customers are unable to meet their obligations on a timely basis, it could adversely impact the realizability of receivables, the valuation of inventories and the valuation of long-lived assets across the Company's businesses, as well as negatively affect the forecasts used in performing the Company's goodwill impairment testing under SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). If management determines that goodwill or other assets are impaired or that inventories

or receivables cannot be realized at recorded amounts, the Company will be required to record a write-down in the period of determination, which will reduce net income for that period. Additionally, the risk remains that certain Mill Services customers may file for bankruptcy protection, be acquired or consolidate in the future, which could have an adverse impact on the Company's income and cash flows. The potential financial impact of this risk has increased with the Company's acquisition of BISNH in December 2005. Conversely, such consolidation may provide additional service opportunities for the Company.

***A negative outcome on personal injury claims against the Company may adversely impact results of operations and financial condition.***

The Company has been named as one of many defendants (approximately 90 or more in most cases) in legal actions alleging personal injury from exposure to airborne asbestos. In their suits, the plaintiffs have named as defendants many manufacturers, distributors and repairers of numerous types of equipment or products that may involve asbestos. Most of these complaints contain a standard claim for damages of \$20 million or more against the named defendants. If the Company was found to be liable in any of these actions and the liability was to exceed the Company's insurance coverage, results of operations, cash flows and financial condition could be adversely affected. For more information concerning this litigation, see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

***The Company may lose customers or be required to reduce prices as a result of competition.***

The industries in which the Company operates are highly competitive.

- The Company's Mill Services business is sustained mainly through contract renewals. Historically, the Company's contract renewal rate has averaged approximately 95%. If the Company is unable to renew its contracts at the historical rates or renewals are at reduced prices, revenue may decline.
- The Company's Access Services business rents and sells equipment and provides erection and dismantling services to principally the non-residential construction and industrial plant maintenance markets. Contracts are awarded based upon the Company's engineering capabilities, product availability, safety record, and the ability to competitively price its rentals and services. Commencing in 2000, due to economic downturns in their home markets, certain international competitors exported significant quantities of rental equipment to the markets the Company serves, particularly the U.S. This resulted in an oversupply of certain equipment and a consequential reduction in product and rental pricing in the markets receiving the excess equipment. The effect of these actions was mitigated, to some extent, in 2005 due to a buoyant U.S. non-residential construction market. However, if the Company is unable to consistently provide high-quality products and services at competitive prices, it may lose customers or operating margins may decline due to reduced selling prices.
- The Company's manufacturing businesses compete with companies that manufacture similar products both internationally and domestically. Certain international competitors export their products into the United States and sell them at lower prices due to lower labor costs and government subsidies for exports. Such practices may limit the prices the Company can charge for its products and services. Additionally, unfavorable foreign exchange rates can adversely impact the Company's ability to match the prices charged by international competitors. If the Company is unable to match the prices charged by international competitors, it may lose customers.

The Company's strategy to overcome this competition includes continuous process improvement and cost reduction programs, international customer focus and the diversification, streamlining and consolidation of operations.

***Increased customer concentration and credit risk in the Mill Services Segment may adversely affect the Company's future earnings and cash flows.***

Concentrations of credit risk with respect to accounts receivable are generally limited due to the Company's large number of customers and their dispersion across different industries and geographies. However, the Company's Mill Services Segment has several large customers throughout the world with significant accounts receivable balances. In December 2005, the Company acquired BISNH. This acquisition has increased the Company's corresponding concentration of credit risk to customers in the steel industry. Additionally, further consolidation in the global steel industry is possible. Should transactions occur involving some of the steel industry's larger companies, which are customers of the Company, it would result in an increase in concentration of credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. As part of its credit risk management practices, the Company is developing strategies to mitigate this increased concentration of credit risk.

***Increases in energy prices could increase the Company's operating costs and reduce its profitability.***

Worldwide political and economic conditions, extreme weather conditions, among other factors, may result in an increase in the volatility of energy costs, both on a macro basis and for the Company specifically. In 2005, 2004 and 2003, energy costs have approximated 3.6%, 3.5% and 3.5% of the Company's revenue, respectively. To the extent that such costs cannot be passed to customers in the future, operating income and results of operations may be adversely affected.

***Increases or decreases in purchase prices or availability of steel or other materials and commodities may affect the Company's profitability.***

The profitability of the Company's manufactured products are affected by changing purchase prices of steel and other materials and commodities. Beginning in 2004, the price paid for steel and certain other commodities increased significantly compared with prior years. In 2005, the cost increases moderated for certain commodities. However, if steel or other material costs associated with the Company's manufactured products increase and the costs cannot be passed on to the Company's customers, operating income would be adversely affected. Additionally, decreased availability of steel or other materials, such as carbon fiber used to manufacture filament-wound composite cylinders, could affect the Company's ability to produce manufactured products in a timely manner. If the Company cannot obtain the necessary raw materials for its manufactured products, then revenues, operating income and cash flows will be adversely affected.

***The Company is subject to various environmental laws and the success of existing or future environmental claims against it could adversely affect the Company's results of operations and cash flows.***

The Company's operations are subject to various federal, state, local and international laws, regulations and ordinances relating to the protection of health, safety and the environment, including those governing discharges to air and water, handling and disposal practices for solid and hazardous wastes, the remediation of contaminated sites and the maintenance of a safe work place. These laws impose penalties, fines and other sanctions for non-compliance and liability for response costs, property damages and personal injury resulting from past and current spills, disposals or other releases of, or exposure to, hazardous materials. The Company could incur substantial costs as a result of non-compliance with or liability for remediation or other costs or damages under these laws. The Company may be subject to more stringent environmental laws in the future, and compliance with more stringent environmental requirements may require the Company to make material expenditures or subject it to liabilities that the Company currently does not anticipate.

The Company is currently involved in a number of environmental remediation investigations and clean-ups and, along with other companies, has been identified as a "potentially responsible party" for certain waste disposal sites under the federal "Superfund" law. At several sites, the Company is currently conducting environmental remediation, and it is probable that the Company will agree to make payments toward funding certain other of these remediation activities. It also is possible that some of these matters will be decided unfavorably to the Company and that other sites requiring remediation will be identified. Each of these matters is subject to various uncertainties and financial exposure is dependent upon such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the allocation of cost among potentially responsible parties, the years of remedial activity required and the remediation methods selected. The Company has evaluated its potential liability and the Consolidated Balance Sheets at December 31, 2005 and 2004 includes an accrual of \$2.8 million and \$2.7 million, respectively, for environmental matters. The amounts charged against pre-tax earnings related to environmental matters totaled \$1.5 million, \$2.1 million and \$1.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. The liability for future remediation costs is evaluated on a quarterly basis. Actual costs to be incurred at identified sites in future periods may be greater than the estimates, given inherent uncertainties in evaluating environmental exposures.

***Restrictions imposed by the Company's credit facilities and outstanding notes may limit the Company's ability to obtain additional financing or to pursue business opportunities.***

The Company's credit facilities and certain notes payable agreements contain a covenant requiring a maximum debt to capital ratio of 60%. In addition, certain notes payable agreements also contain a covenant requiring a minimum net worth of \$475 million. These covenants limit the amount of debt the Company may incur, which could limit its ability to obtain additional financing or to pursue business opportunities. In addition, the Company's ability to comply with these ratios may be affected by events beyond its control. A breach of any of these covenants or the inability to comply with the required financial ratios could result in a default under these credit facilities. In the event of any default under these credit facilities, the lenders under those facilities could elect to declare all borrowings outstanding, together with accrued and unpaid interest and other fees, to be due and payable, which would cause an event of default under the notes. This could, in turn, trigger an event of default under the cross-default provisions of the Company's other outstanding indebtedness. At December 31, 2005, the Company was in compliance with these covenants with a debt to capital ratio



of 50.4%, and a net worth of \$993.9 million. The Company had \$347.6 million in outstanding indebtedness containing these covenants at December 31, 2005.

***Higher than expected claims under insurance policies, under which the Company retains a portion of the risk, could adversely impact results of operations and cash flows.***

The Company retains a significant portion of the risk for property, workers' compensation, U.K. employers' liability, automobile, general and product liability losses. Reserves have been recorded which reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions that are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. At December 31, 2005 and 2004, the Company had recorded liabilities of \$102.3 million and \$77.4 million, respectively, related to both asserted and unasserted insurance claims. Included in the balance at December 31, 2005 were \$25.2 million of recognized liabilities covered by insurance carriers. There were no such liabilities recognized as of December 31, 2004 since there were no probable claim amounts in excess of the Company's deductible limits. If actual claims are higher than those projected by management, an increase to the Company's insurance reserves may be required and would be recorded as a charge to income in the period the need for the change was determined. Conversely, if actual claims are lower than those projected by management, a decrease to the Company's insurance reserves may be required and would be recorded as a reduction to expense in the period the need for the change was determined.

***The seasonality of the Company's business may cause its quarterly results to fluctuate.***

The Company has historically generated the majority of its cash flows in the third and fourth quarters (periods ending September 30 and December 31). This is a direct result of normally higher sales and income during the latter part of the year, as the Company's business tends to follow seasonal patterns. If the Company is unable to successfully manage the cash flow and other effects of seasonality on the business, its financial condition and results of operations may be negatively affected. The Company's historical revenue patterns and net cash provided by operating activities are included in Part I, Item 1, "Business."

***The Company's cash flows and earnings are subject to changes in interest rates.***

The Company's total debt as of December 31, 2005 was \$1.0 billion. Of this amount, approximately 49.5% had variable rates of interest and 50.5% had fixed rates of interest. The weighted average interest rate of total debt was approximately 5.3%. At current debt levels, a one-percentage increase/decrease in variable interest rates would increase/decrease interest expense by approximately \$5.0 million per year.

The future financial impact on the Company associated with the above risks cannot be estimated.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Information as to the principal plants owned and operated by the Company is summarized in the following table:

<b>Location</b>	<b>Principal Products</b>
-----------------	---------------------------

Access Services Segment

Marion, Ohio

Dosthill, United Kingdom

Access Equipment Maintenance

Access Equipment Maintenance

Gas Technologies Segment

Lockport, New York

Niagara Falls, New York

Washington, Pennsylvania

Valves

Valves

Valves

**Location**

**Principal Products**

Bloomfield, Iowa  
 Fremont, Ohio  
 Jesup, Georgia  
 West Jordan, Utah

Propane Tanks  
 Propane Tanks  
 Propane Tanks  
 Propane Tanks

Harrisburg, Pennsylvania  
 Huntsville, Alabama

High Pressure Cylinders  
 High Pressure Cylinders

Beijing, China  
 Jesup, Georgia  
 Kosice, Slovakia  
 Shah Alam, Malaysia  
 Theodore, Alabama

Cryogenic Storage Vessels  
 Cryogenic Storage Vessels  
 Cryogenic Storage Vessels  
 Cryogenic Storage Vessels  
 Cryogenic Storage Vessels

Engineered Products and Services (“all other”) Category

Drakesboro, Kentucky  
 Gary, Indiana  
 Moundsville, West Virginia  
 Tampa, Florida

Roofing Granules/Abrasives  
 Roofing Granules/Abrasives  
 Roofing Granules/Abrasives  
 Roofing Granules/Abrasives

Brendale, Australia  
 Fairmont, Minnesota  
 Ludington, Michigan  
 West Columbia, South Carolina

Railroad Equipment  
 Railroad Equipment  
 Railroad Equipment  
 Railroad Equipment

Channelview, Texas  
 Leeds, Alabama  
 Queretaro, Mexico

Industrial Grating Products  
 Industrial Grating Products  
 Industrial Grating Products

East Stroudsburg, Pennsylvania

Process Equipment

Catoosa, Oklahoma

Heat Exchangers

The Company also operates the following plants which are leased:

**Location**

**Principal Products**

Access Services Segment

DeLimiet, Netherlands  
 Ratingen, Germany

Access Equipment Maintenance  
 Access Equipment Maintenance

Gas Technologies Segment

Cleveland, Ohio  
 Pomona, California

Brass Castings  
 Composite Cylinders

Engineered Products and Services (“all other”) Category

Memphis, Tennessee

Roofing Granules/Abrasives

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Eastwood, United Kingdom  
Tulsa, Oklahoma  
Garrett, Indiana  
Catoosa, Oklahoma  
Sapulpa, Oklahoma

Railroad Equipment  
Industrial Grating Products  
Industrial Grating Products  
Heat Exchangers  
Heat Exchangers

The above listing includes the principal properties owned or leased by the Company. The Company also operates from a number of other smaller plants, branches, depots, warehouses and offices in addition to the above. The Company considers all of its properties at which operations are currently performed to be in satisfactory condition and suitable for operations.

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### Item 3. Legal Proceedings

Information regarding legal proceedings is included in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters that were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the year covered by this Report.

### Supplementary Item. Executive Officers of the Registrant (Pursuant to Instruction 3 to Item 401(b) of Regulation S-K)

Set forth below, as of March 13, 2006, are the executive officers (this excludes three corporate officers who are not deemed "executive officers" within the meaning of applicable Securities and Exchange Commission regulations) of the Company and certain information with respect to each of them. D. C. Hathaway, S. D. Fazzolari and R. C. Neuffer were elected to their respective offices effective January 24, 2006. G. D. H. Butler, M. E. Kimmel and S. J. Schnoor were elected to their respective offices effective April 26, 2005. All terms expire on April 26, 2006. There are no family relationships between any of the executive officers.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation or Employment</u>
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**Executive Officers:**

D. C. Hathaway	61	Chairman and Chief Executive Officer of the Corporation since January 24, 2006 and from January 1, 1998 to July 31, 2000. Served as Chairman, President and Chief Executive Officer from April 1, 1994 to December 31, 1997 and from July 31, 2000 to January 23, 2006 and as President and Chief Executive Officer from January 1, 1994 to April 1, 1994. Director since 1991. From 1991 to 1993, served as President and Chief Operating Officer. From 1986 to 1991 served as Senior Vice President-Operations of the Corporation. Served as Group Vice President from 1984 to 1986 and as President of the Dartmouth Division of the Corporation from 1979 until 1984.
S. D. Fazzolari	53	President, Chief Financial Officer and Treasurer of the Corporation effective January 24, 2006 and Director since January 2002. Served as Senior Vice President, Chief Financial Officer and Treasurer from August 24, 1999 to January 23, 2006 and as Senior Vice President and Chief Financial Officer from January 1998 to August 1999. Served as Vice President and Controller from January 1994 to December 1997 and as Controller from January 1993 to January 1994. Previously served as Director of Auditing from 1985 to 1993 and served in various auditing positions from 1980 to 1985.
G. D. H. Butler	59	Senior Vice President-Operations of the Corporation effective September 26, 2000 and Director since January 2002. Concurrently serves as President of the MultiServ and SGB Divisions. From September 2000 through December 2003, he was President of the Heckett MultiServ International and SGB Divisions. Was President of the Heckett MultiServ-East Division from July 1, 1994 to September 26, 2000. Served as Managing Director - Eastern Region of the Heckett MultiServ Division from January 1, 1994 to June 30, 1994. Served in

various officer positions within MultiServ International, N. V. prior to 1994 and prior to the Company's acquisition of that corporation in August 1993.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation or Employment</u>
M. E. Kimmel	46	General Counsel and Corporate Secretary effective January 1, 2004. Served as Corporate Secretary and Assistant General Counsel from May 1, 2003 to December 31, 2003. Held various legal positions within the Corporation since he joined the Company in August 2001. Prior to joining Harsco, he was Vice President, Administration and General Counsel, New World Pasta Company from January 1, 1999 to July 2001. Before joining New World Pasta, Mr. Kimmel spent approximately 12 years in various legal positions with Hershey Foods Corporation.
S. J. Schnoor	52	Vice President and Controller of the Corporation effective May 15, 1998. Served as Vice President and Controller of the Patent Construction Systems Division from February 1996 to May 1998 and as Controller of the Patent Construction Systems Division from January 1993 to February 1996. Previously served in various auditing positions for the Corporation from 1988 to 1993. Prior to joining Harsco, he served in various auditing positions for Coopers & Lybrand from September 1985 to April 1988.
R. C. Neuffer	63	President of the Engineered Products and Services business group since his appointment on January 24, 2006. Previously, he led the Patterson-Kelley, IKG Industries and Air-X-Changers units as Vice President and General Manager since 2004. In 2003, he was Vice President and General Manager of IKG Industries and Patterson-Kelley. Between 1997 and 2002, he was Vice President and General Manager of Patterson-Kelley. Mr. Neuffer joined Harsco in 1991.

## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Harsco Corporation common stock is listed on the New York and Pacific Stock Exchanges, and also trades on the Boston and Philadelphia Exchanges under the symbol HSC. At the end of 2005, there were 41,783,176 shares outstanding. In 2005, the Company's common stock traded in a range of \$49.87 to \$70.57 and closed at \$67.51 at year-end. At December 31, 2005 there were approximately 17,400 stockholders. There are no significant limitations on the payment of dividends included in the Company's loan agreements. For additional information regarding Harsco common stock market price and dividends declared, see Dividend Action under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Common Stock Price and Dividend Information under Part II, Item 8, "Financial Statements and Supplementary Data." For additional information on the Company's equity compensation plans see Part III, Item 11, "Executive Compensation."

## (c). Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2005 - October 31, 2005	—	—	—	1,000,000
November 1, 2005 - November 30, 2005	—	—	—	1,000,000
December 1, 2005 - December 31, 2005	—	—	—	1,000,000
Total	—	—	—	

The Company's share repurchase program was extended by Board of Directors in November 2005. The program authorizes the repurchase of up to 1,000,000 shares of the Company's common stock and expires January 31, 2007.



**Item 6. Selected Financial Data****Five-Year Statistical Summary****(In thousands, except per share, employee information and**

<b>percentages)</b>	<b>2005 (a)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Income Statement Information</b>					
Revenues from continuing operations	\$ 2,766,210	\$ 2,502,059	\$ 2,118,516	\$ 1,976,732	\$ 2,025,163
Income from continuing operations	156,750	113,540	86,999	88,410	74,642
Income (loss) from discontinued operations	(93)	7,671	5,218	1,696	(2,917)
Net income	156,657	121,211	92,217	90,106	71,725
<b>Financial Position and Cash Flow Information</b>					
Working capital	\$ 352,620	\$ 346,768	\$ 269,276	\$ 228,552	\$ 231,156
Total assets	2,975,804	2,389,756	2,138,035	1,999,297	2,090,766
Long-term debt	905,859	594,747	584,425	605,613	720,133
Total debt	1,009,888	625,809	613,531	639,670	762,115
Depreciation and amortization	198,065	184,371	168,935	155,661	176,531
Capital expenditures	290,239	204,235	143,824	114,340	156,073
Cash provided by operating activities	315,279	270,465	262,788	253,753	240,601
Cash used by investing activities	(645,185)	(209,602)	(144,791)	(53,929)	(125,213)
Cash provided (used) by financing activities	369,325	(56,512)	(125,501)	(205,480)	(99,190)
<b>Ratios</b>					
Return on sales(b)	5.7%	4.5%	4.1%	4.5%	3.7%
Return on average equity(c)	16.7%	13.8%	12.2%	12.6%	11.1%
Current ratio	1.5:1	1.6:1	1.5:1	1.5:1	1.5:1
Total debt to total capital(d)	50.4%	40.6%	44.1%	49.8%	52.6%
<b>Per Share Information</b>					
Basic - Income from continuing operations	\$ 3.76	\$ 2.76	\$ 2.14	\$ 2.19	\$ 1.87
- Income (loss) from discontinued operations	—	0.19	0.13	0.04	(0.07)
- Net income	\$ 3.76	\$ 2.95	\$ 2.27	\$ 2.23	\$ 1.80
Diluted - Income from continuing operations	\$ 3.73	\$ 2.73	\$ 2.12	\$ 2.17	\$ 1.86
- Income (loss) from discontinued operations	—	0.18	0.13	0.04	(0.07)
- Net income	\$ 3.72 (e)	\$ 2.91	\$ 2.25	\$ 2.21	\$ 1.79
Book value	\$ 23.79	\$ 22.07	\$ 19.01	\$ 15.90	\$ 17.16
Cash dividends declared	1.225	1.125	1.0625	1.0125	0.97
<b>Other Information</b>					

Diluted average number of shares outstanding	<b>42,080</b>	41,598	40,973	40,680	40,066
Number of employees	<b>21,000</b>	18,500	17,500	17,500	18,700
Backlog from continuing operations (f)	\$ <b>275,790</b>	\$ 243,006	\$ 186,222	\$ 157,777	\$ 214,124

- (a) Includes the Northern Hemisphere mill services operations of Brambles Industrial Services (BISNH) acquired December 29, 2005 (Mill Services) and Hünnebeck Group GmbH acquired November 21, 2005 (Access Services).
- (b) "Return on sales" is calculated by dividing income from continuing operations by revenues from continuing operations.
- (c) "Return on average equity" is calculated by dividing income from continuing operations by quarterly weighted-average equity.
- (d) "Total debt to total capital" is calculated by dividing the sum of debt (short-term borrowings and long-term debt including current maturities) by the sum of equity and debt.
- (e) Does not total due to rounding.
- (f) Excludes the estimated amount of long-term mill service contracts, which had estimated future revenues of \$4.3 billion at December 31, 2005. Also excludes backlog of the Access Services Segment and the roofing granules and slag abrasives business. These amounts are generally not quantifiable due to the nature and timing of the products and services provided.

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a

number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein.

### **Forward-Looking Statements**

The nature of the Company's business and the many countries in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Forward-looking statements contained herein could include statements about our management confidence and strategies for performance; expectations for new and existing products, technologies, and opportunities; and expectations regarding growth, sales, cash flows, earnings and Economic Value Added (EVA®). These statements can be identified by the use of such terms as "may," "could," "expect," "anticipate," "intend," "believe," or other comparable terms.

Factors which could cause results to differ include, but are not limited to: (1) changes in the worldwide business environment in which the Company operates, including general economic conditions; (2) changes in currency exchange rates, interest rates and capital costs; (3) changes in the performance of stock and bond markets that could affect the valuation of the assets in the Company's pension plans and the accounting for pension assets, liabilities and expenses; (4) changes in governmental laws and regulations, including taxes and import tariffs; (5) market and competitive changes, including pricing pressures, market demand and acceptance for new products, services and technologies; (6) unforeseen business disruptions in one or more of the many countries in which the Company operates due to political instability, civil disobedience, armed hostilities or other calamities; and (7) other risk factors listed from time to time in the Company's SEC reports. A further discussion of these, along with other potential factors can be found in Part I, Item 1A, "Risk Factors," of this Form 10-K. The Company cautions that these factors may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty to update forward-looking statements.

### **Executive Overview**

The Company's 2005 revenues were a record \$2.8 billion. This is an increase of \$0.3 billion or 11% over 2004. Income from continuing operations was a record \$156.8 million for 2005 compared with \$113.5 million in 2004, an increase of 38%. Diluted earnings per share from continuing operations were a record \$3.73 for 2005, a 37% increase from 2004.

All four of the Company's operating groups showed improved full-year results over the prior year. The 2005 results were led by the Access Services Segment and the Engineered Products and Services ("all other") Category as a result of strong end-markets, margin improvements and share gains. The Mill Services Segment delivered increased sales and operating income despite essentially flat global steel production (excluding China), higher fuel costs and the timing of new contract signings. The Gas Technologies Segment experienced some moderating raw material cost inflation, in several product lines, that benefited operating income compared with 2004. Additionally, in the fourth quarter of 2005, the Company completed two strategic bolt-on acquisitions, one in the Access Services Segment on November 21 (Hünnebeck Group GmbH), and one in the Mill Services Segment on December 29 (the Northern Hemisphere mill services operations of Brambles Industrial Services ("BISNH")).

During 2005, the Company had record net cash provided by operating activities of \$315.3 million, a 17% increase over the \$270.5 million achieved in 2004. For 2006, the Company has set a target of \$400 million for net cash provided by operating activities, a 27% increase over the 2005 record level. The Company's cash flows are further discussed in the Liquidity and Capital Resources section.

The record revenue, income from continuing operations and diluted earnings per share from continuing operations for 2005 demonstrate the balance and geographic diversity of the Company's operations. The Company's Mill Services, Access Services and Gas Technologies Segments, as well as the Engineered Products and Services ("all other") Category all delivered improved results. This operating balance and geographic diversity provides a broad foundation for future growth opportunities and a hedge against normal changes in economic and industrial cycles.

***Segment Overview***

Revenues for 2005 for the Mill Services Segment were \$1.1 billion compared with \$1.0 billion in 2004, a 6% increase. Operating income increased by 4% to \$109.6 million, from \$105.5 million in 2004. Operating margins for this Segment decreased by 30 basis points to 10.3% from 10.6% in 2004 due to higher energy costs and production cutbacks in the last half of 2005 by certain steel mill customers. A benefit from the gain on the sale of certain assets related to exiting an underperforming contract was mostly offset by the impact of higher severance costs. This Segment accounted for 38% of the Company's revenues and 41% of the operating income for 2005.

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The Access Services Segment's revenues in 2005 were \$788.8 million compared with \$706.5 million in 2004, a 12% increase. Operating income increased by 68% to \$74.7 million, from \$44.5 million in 2004. Operating margins for the Segment improved by 320 basis points to 9.5% from 6.3% in 2004. These improvements were due to increased rental equipment utilization; better non-residential construction market conditions; market share gains; improved pricing, particularly in the United States; and \$5.4 million of pre-tax gains from the disposal of assets related to the closing of a branch location and the sale of the Youngman light-access manufacturing business. This Segment accounted for 29% of the Company's revenues and 28% of the operating income for 2005. Improved performance was achieved by both the international and domestic Access Services operations.

The Gas Technologies Segment's revenues in 2005 were \$370.2 million compared with \$339.1 million in 2004, a 9% increase. Operating income increased by 24% to \$17.9 million, from \$14.4 million in 2004. The increased revenues in 2005 were led by the industrial cylinder and cryogenics equipment businesses. As expected, operating income and margins were positively affected in 2005 by moderating commodity cost increases, particularly steel, compared with 2004. This Segment accounted for 13% of the Company's revenues and 7% of the operating income for 2005.

Four of the five businesses in the Engineered Products and Services ("all other") Category contributed higher revenues, operating income and operating margins in 2005 compared with 2004. The railway track maintenance services and equipment business delivered record revenues in 2005 through increased contracting services activity and strong equipment and repair parts sales. The air-cooled heat exchangers business also experienced improved market conditions that have resulted in increased volumes and backlogs. The industrial grating products business had improved revenues and operating income due to increased demand (partially due to the effects of Hurricanes Katrina and Rita) and, to a lesser extent, higher prices and an improved product mix. The roofing granules and abrasives business and the boiler and process equipment business delivered solid performances in 2005, consistent with the prior year.

The positive effect of foreign currency translation increased 2005 consolidated revenues by \$14.8 million and pre-tax income by \$3.1 million when compared with 2004.

#### ***Outlook Overview***

The Company's operations span several industries and products as more fully discussed in Part I, Item 1, "Business." On a macro basis, the Company is affected by worldwide steel mill production and capacity utilization; non-residential construction and industrial maintenance activities; industrial production volume; and the general business trend towards the outsourcing of services. The overall outlook for 2006 continues to be positive for these business drivers.

The Company's Mill Services Segment expects to benefit from gradually increasing steel production at mills served by the Company, new contract signings and a full year of accretion from the December 29, 2005 acquisition of BISNH. However, the Company also expects to experience continued increased energy costs that may have a negative effect on operating margins, to the extent these costs cannot be passed to customers.

Both domestic and international Access Services activity remains strong. Although the sale of the Youngman light-access manufacturing business in late 2005 will modestly affect 2006 revenues, improvements to operating performance in 2006 for the Segment are expected to be led by a full-year of accretion from the November 21, 2005 Hünnebeck acquisition; increased non-residential construction spending and industrial maintenance activity in the Company's major markets; continued development of new markets; further market penetration from new products; product cross-selling opportunities among the markets served by the three Access Services businesses; and cost reduction opportunities through consolidated procurement initiatives.

In the Gas Technologies Segment for 2006, demand for industrial cylinders and cryogenics equipment is expected to show continued improvement. The propane business is expected to return to a more normal business cycle in comparison to the prior two years, and an overall improvement in the valves business is expected. International

operations are expected to continue to perform well. However, the risk remains that certain commodity cost inflation and the availability of certain raw materials could adversely affect this Segment's results.

The outlook for the Engineered Products and Services ("all other") Category remains positive for 2006. The Company's railway track maintenance services and equipment business' income and margins are expected to continue to benefit from the shift toward contract services, with several major contracts scheduled to start in 2006. The air-cooled heat exchangers business is expected to continue to benefit from strong end-market demand due to increased natural gas drilling and transmission. While not expecting a repeat of the same level of benefits from post-Katrina rebuilding experienced in the second half of 2005, the industrial grating products business is expected to post another year of solid, stable results in 2006, as are the roofing granules and abrasives and the boiler and process equipment businesses.

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The stable or improved market conditions for most of the Company's services and products and the significant investments made for acquisitions and growth-related capital expenditures provide a solid base for achieving the Company's stated objective of growth in diluted earnings per share from continuing operations in 2006.

(Dollars in millions)	Revenues by Region				
	Total Revenues		Percentage Growth From		
	Twelve Months Ended December 31		2004 to 2005		
	2005	2004	Volume	Currency	Total
North America	\$ 1,219.8	\$ 1,103.7	10.2%	0.3%	10.5%
Europe	1,109.1	1,018.1	9.6	(0.7)	8.9
Middle East and Africa	153.7	137.7	10.9	0.7	11.6
Latin America	149.2	122.9	9.9	11.5	21.4
Asia/Pacific	134.4	119.7	9.8	2.5	12.3
Total	\$ 2,766.2	\$ 2,502.1	10.0%	0.6%	10.6%

### 2005 Highlights

The following significant items impacted the Company overall during 2005 in comparison with 2004:

#### Company Wide:

- Strong worldwide economic activity benefited the Company in 2005. This included increased access equipment sales and rentals, especially in the U.S., Middle East and Europe; increased global demand for railway track maintenance services and equipment; and increased demand for air-cooled heat exchangers, industrial cylinders, cryogenics equipment and industrial grating products. During the first half of 2005, the Company's Mill Services Segment benefited from strong steel production activity; however, during the second half of 2005, steel production at certain mills served by this Segment declined, negatively impacting results.
- As expected, during 2005, the Company experienced an overall leveling-off of commodity cost increases (particularly steel); however, fuel and energy-related costs and certain other commodity costs continued to increase. To the extent that such costs cannot be passed to customers in the future, operating income may be adversely affected. The Company uses the last-in, first-out (LIFO) method of inventory accounting for most of its manufacturing businesses. LIFO matches the most recently incurred costs with current revenues by charging cost of goods sold with the costs of goods most recently acquired or produced. In periods of rising prices, reported costs under LIFO are generally greater than under the first-in, first-out (FIFO) method. Based on current economic forecasts, cost inflation for certain commodities used by the Company is expected to increase slightly in 2006, although fuel and energy-related costs are expected to continue to increase at a higher rate. However, there can be no assurance that will occur.
- Total pension expense for 2005 decreased \$1.7 million from 2004. Defined benefit pension expense for 2005 decreased approximately \$3.8 million from 2004 due to plan structural changes implemented in recent years. During 2005, the defined benefit pension expense decrease was partially offset by increases of approximately \$1.5 million and \$0.7 million in defined contribution plan and multi-employer plan expenses, respectively. The Company is currently taking additional actions to further reduce pension expense volatility. This is more fully discussed in the Outlook, Trends and Strategies section.
- Net Other expenses for 2005 included \$9.7 million in net gains on the sale of non-core assets, mostly offset by \$9.1 million in employee termination benefit costs. This compares with \$1.5 million in net gains on the sale of assets and \$3.9 million in employee termination benefit costs in 2004.
- During 2005, international sales and income were 58% and 67%, respectively, of total sales and income. This compares with the 2004 levels of 58% of sales and 69% of income. The international percentages are expected to increase in 2006 as a result of the late-2005 Hünnebeck and BISNH acquisitions.





**Mill Services Segment:****(Dollars in millions)**

	<b>2005</b>	<b>2004</b>
Revenues	\$ <b>1,060.4</b>	\$ 997.4
Operating income	<b>109.6</b>	105.5
Operating margin percent	<b>10.3%</b>	10.6%

**Mill Services Segment - Significant Impacts on Revenues:****(In millions)**

Revenues - 2004	\$	997.4
Increased volume and new business		42.0
Benefit of positive foreign currency translation		17.0
Acquisition - (principally Evulca SAS in France) (a)		4.0
Revenues - 2005	\$	1,060.4

(a) Since BISNH was acquired on December 29, 2005, it did not have a significant effect on 2005 operations.

**Mill Services Segment - Significant Impacts on Operating Income:**

- Operating income for 2005 increased slightly as a result of increased pricing for certain contracts and new business, particularly in Europe and Brazil, mostly offset by increased operating costs (as noted below) and reduced volume in South Africa and North America during the majority of 2005.
- Compared with 2004, the Segment's operating income and margins in 2005 were negatively impacted by increased fuel and energy-related costs of approximately \$13 million.
- Selling, general and administrative costs increased \$5.4 million for 2005 (including approximately \$1.1 million related to foreign currency translation). These increases related primarily to increased compensation costs.
- The benefit of positive foreign currency translation in 2005 resulted in increased operating income of \$2.1 million compared with 2004.

**Access Services Segment:****(Dollars in millions)**

	<b>2005</b>	<b>2004</b>
Revenues	\$ <b>788.8</b>	\$ 706.5
Operating income	<b>74.7</b>	44.4
Operating margin percent	<b>9.5%</b>	6.3%

**Access Services Segment - Significant Impacts on Revenues:****(In millions)**

Revenues - 2004	\$	706.5
Net increased volume (mostly U.S., Middle East and Continental Europe)		72.0
Net effect of acquisitions and divestitures (Hünnebeck and SGB Raffia in Australia (acquired in April 2004)) offset by the Youngman light-access manufacturing unit divestiture)		12.5

Impact of negative foreign currency translation		(2.8)
Other		0.6
Revenues - 2005	\$	788.8

**Access Services Segment - Significant Impacts on Operating Income:**

- In 2005, there was a continued strengthening in the U.S. non-residential construction markets that started in the latter half of 2004. During 2005, the value of rental equipment on customer job sites was at an all-time high. This had a positive effect on volume (particularly equipment rentals) which caused overall margins in the U.S. to improve. Equipment rentals, particularly in the construction sector, provide the highest margins for this Segment.

- The international access services business continued to increase outside the U.K., predominantly in the Middle East and Europe, due to certain on-going large projects as well as the Hünnebeck acquisition. During 2005, the international operations outside of the U.K. had \$305.3 million in revenues and \$45.5 million in operating income. This compares with \$231.5 million in revenues and \$29.9 million in operating income for 2004.
- During 2005, the Segment was favorably affected by pre-tax income of \$5.4 million from the disposal of assets related to the closing of a branch location and the sale of the Youngman light-access manufacturing unit. During 2004, only \$1.1 million of similar benefits occurred.
- Lower pension expense in 2005 increased operating income by approximately \$5.0 million when compared with 2004.
- The net effect of acquisitions and divestitures had a positive effect on 2005 operating income and margins, with the Hünnebeck business contributing income during its first full month of operation.
- The benefit of positive foreign currency translation in 2005 for this Segment resulted in increased operating income of \$0.9 million when compared with 2004.

**Gas Technologies Segment:**

(Dollars in millions)	2005	2004
Revenues	\$ 370.2	\$ 339.1
Operating income	17.9	14.4
Operating margin percent	4.8%	4.2%

**Gas Technologies Segment - Significant Impacts on Revenues:**

	(In millions)
Revenues - 2004	\$ 339.1
Increased demand for cryogenics equipment and industrial cylinders	25.3
Increased demand for composite-wrapped cylinders and certain valves	8.1
Decreased sales of propane tanks (due to customers accelerating purchases in 2004 to avoid price increases)	(2.0)
Other	(0.3)
Revenues - 2005	\$ 370.2

**Gas Technologies Segment - Significant Impacts on Operating Income:**

- Operating income increased in 2005 compared with 2004 due mainly to moderating commodity cost increases, particularly steel. Since this Segment accounts for the majority of its U.S. inventory using the last-in, first-out (LIFO) method, this moderation of commodity costs has resulted in improved operating income.
- The international businesses, in Europe and, to a lesser extent, Asia, contributed significantly to the increased performance of the cryogenics business during 2005 compared with 2004.
- Higher operating income in 2005 for composite-wrapped cylinders was due to increased shipments of natural gas vehicle (NGV) cylinders, partially offset by an unfavorable product mix and higher raw material costs for carbon fiber and aluminum.
- Higher operating income for industrial cylinders was due to increased demand and selling price increases, partially offset by higher energy-related and steel costs.
- Increased costs and an unfavorable product mix in the valves business negatively impacted operating income in 2005 compared with 2004. A strategic action plan has been implemented to improve the results of the valves business. This plan is further discussed in the Outlook, Trends and Strategies section.

- As expected, the propane business had decreased revenues and operating income in 2005 when compared with 2004. As indicated last year, there was increased demand for propane tanks in 2004 driven by customers accelerating purchases in anticipation of future price increases due to higher steel prices.
- Foreign currency translation in 2005 did not have a material impact on operating income for this Segment compared with 2004.

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**Engineered Products and Services (“all other”) Category:**

(Dollars in millions)

	2005		2004
Revenues	\$ 546.9	\$	459.1
Operating income	69.7		47.0
Operating margin percent	12.7%		10.2%

**Engineered Products and Services (“all other”) Category - Significant Impacts on Revenues:**

	(In millions)
Revenues - 2004	\$ 459.1
Railway track services and equipment	38.0
Air-cooled heat exchangers	32.2
Industrial grating products	12.4
Boiler and process equipment	3.3
Roofing granules and abrasives	1.4
Benefit of positive foreign currency translation	0.5
Revenues - 2005	\$ 546.9

**Engineered Products and Services (“all other”) Category - Significant Impacts on Operating Income:**

- Higher operating income in 2005 (including a record third quarter) in comparison to 2004 for the railway track maintenance services and equipment business was due principally to increased rail equipment sales (principally to international customers), international contract services and repair parts sales. This was partially offset by increased engineering costs; selling, general and administrative expenses; and Other expenses related to employee termination benefit costs.
- Operating income for the air-cooled heat exchangers business improved in 2005 due to increased volume resulting from an improved natural gas market.
- Increased 2005 operating income for the industrial grating products business was due principally to reduced commodity costs; increased demand (partially due to the effects of Hurricanes Katrina and Rita); and, to a lesser extent, increased prices and an improved product mix.
- The boiler and process equipment business delivered improved 2005 results due to improved revenues from the new-generation Mach boilers.
- Strong demand for roofing granules and abrasives again resulted in sustained levels of profitable results for that business in 2005, consistent with prior periods. This is despite difficulty throughout the third and fourth quarters of 2005 in obtaining rail cars to deliver its products, and, to a lesser extent, higher energy costs.
- The impact of positive foreign currency translation in 2005 resulted in decreased operating income of \$0.2 million for this Category when compared with 2004.

**Outlook, Trends and Strategies**

Looking to 2006 and beyond, the following significant items, trends and strategies are expected to affect the Company in comparison with 2005:

**Company Wide:**

- The Company will continue its focus on expanding the higher-margin industrial services businesses, with a particular emphasis on growing the Mill Services Segment, Access Services Segment and railway services through the provision of additional services to existing customers, new contracts in both mature and emerging markets and strategic acquisitions such as the 2005 Hünnebeck and BISNH acquisitions in the Access Services and Mill Services Segments, respectively.
- A greater focus on corporate-wide expansion into China is expected in 2006 and beyond. The opening of a representative office in Beijing in the fourth quarter of 2005 has provided a local presence to pursue new business opportunities for all operating units of the Company.
- The continued growth of the Chinese steel industry could impact the Company in several ways. Increased steel mill production in China may provide additional service opportunities for the Mill Services Segment. However, increased Chinese steel exports could result in lower steel production in other parts of the world affecting the Company's

customer base. Additionally, although certain commodity cost increases (e.g., steel) have stabilized in 2005, continued increased Chinese economic activity may result in increased commodity costs in the future, which may adversely affect the Company's manufacturing businesses. The potential impact of these risks is currently unknown.

- Fuel and energy costs increased approximately \$18 million in 2005 compared with 2004. Should these costs continue to rise, the Company's operating costs would further increase and profitability would decline to the extent that such costs cannot be passed to customers.
- Foreign currency translation had an overall favorable effect on the Company's sales and income during 2005 (although during the fourth quarter it was negative), but a negative impact on Stockholders' equity as a result of translation adjustments. Should the U.S. dollar continue to strengthen, particularly in relationship to the euro or British pound sterling, the impact on the Company would generally be negative in terms of reduced sales, income and Stockholders' equity.
- The Company will continue to focus on improving Economic Value Added (EVA®). Under this program, the Company evaluates strategic investments based upon the investment's economic profit. EVA equals after-tax operating profits less a charge for the use of the capital employed to create those profits (only the service cost portion of defined benefit pension expense is included for EVA purposes). Therefore, value is created when a project or initiative produces a return above the cost of capital.
  - A record \$400 million in net cash provided by operating activities has been targeted for 2006.
- Controllable cost reductions and continuous process improvement initiatives across the Company are targeted to further enhance margins for most businesses. These initiatives include improved supply chain management; additional outsourcing in the manufacturing businesses; and an added emphasis on corporate-wide procurement initiatives. The Company will use its increased size and leverage due to recent acquisitions to reduce vendor costs and focus on additional opportunities for cost reductions via procurement in low-cost countries such as China.
- Total pension expense (defined benefit, defined contribution and multi-employer) for 2006 is expected to approximate the 2005 level, or be slightly lower. In the U.K., pension expense is expected to decline in 2006 due to the significant level (approximately \$20 million in the past 18 months) of voluntary cash contributions to the defined benefit pension plan and the improved 2005 performance of the plan's assets. Domestically, the majority of the twenty-year amortization of the transition asset (from the initial implementation of SFAS No. 87 in 1986) will cease during 2006. The elimination of this benefit is projected to increase domestic defined-benefit pension expense by approximately \$1.0 million when compared with 2005. The Company's pension committee continues to evaluate alternative strategies to further mitigate overall pension expense including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that will mitigate future volatility and expense.
- Changes in worldwide interest rates could have a greater effect on the Company's overall interest expense as currently approximately 50% of the Company's borrowings are at variable interest rates (in comparison to approximately 12% at December 31, 2004). The Company is considering refinancing certain variable interest-rate borrowings at longer-term fixed rates to reduce potential volatility. However, this may increase short-term interest expense as currently, longer-term fixed interest rates are higher than variable shorter-term interest rates.
  - On October 22, 2004, the American Jobs Creation Act of 2004 ("AJCA") was signed into law. The AJCA includes a deduction of 85% for certain international earnings that are repatriated, as defined in the AJCA, to the U.S. The Company completed its evaluation of the repatriation provisions of the AJCA and repatriated qualified earnings of approximately \$24 million in the fourth quarter of 2005. This resulted in the Company receiving a one-time income tax benefit of approximately \$2.7 million during the fourth quarter of 2005. In 2006, the effective income tax rate for continuing operations is expected to approximate 33%. This compares with an effective income tax rate of 28.1% in 2005. The difference is primarily due to the one-time tax benefit from the AJCA as indicated above and, consistent with the Company's strategic plan of investing for growth, the Company designated certain international earnings as permanently reinvested which resulted in a one-time income tax benefit of \$3.6 million.

Mill Services Segment:

- To maintain pricing levels, a more disciplined steel industry has been adjusting production levels to bring inventories in-line with current demand. Based on current market conditions and industry reports, the Company expects global steel production to increase in 2006.
- The increased energy-related costs this Segment experienced during 2005 are expected to persist through 2006. However, given the volatility of such costs, the effect cannot be quantified.
- The Company will be placing significant emphasis on improving operating margins of this Segment. Specific plans for 2006 include global procurement initiatives, process improvement programs, maintenance best practices programs and executing its reorganization plan.
- The BISNH acquisition will provide increased sales and income for this Segment.
- Further consolidation in the global steel industry is also possible. Should transactions occur involving some of the steel industry's larger companies that are customers of the Company, it would result in an increase in concentration of

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credit risk for the Company. If a large customer were to experience financial difficulty, or file for bankruptcy protection, it could adversely impact the Company's income, cash flows and asset valuations. As part of its credit risk management practices, the Company is developing strategies to mitigate this increased concentration of credit risk.

Access Services Segment:

- Both the international and domestic Access Services businesses are expected to show continued improvement during 2006.
- In 2005, the Youngman light-access manufacturing unit was sold and certain large customer projects in the U.K. and Middle East are close to completion, which will eliminate the associated revenue. In 2006, these decreases are expected to be offset by increased sales and income from the Hünnebeck acquisition and through the further development of core activities. Additionally, the sale of the Youngman unit will allow for greater focus on the more profitable rental business.
- U.S. non-residential construction activity continued to improve in 2005 and the overall market outlook remains positive. Various industry sources are currently forecasting continued growth for U.S. non-residential construction during 2006. Additionally, new product line additions should assist with growth in North America.

Gas Technologies Segment:

- Although cost inflation for steel and certain commodities moderated in 2005, worldwide supply and demand for steel, aluminum and the availability of carbon fiber used to manufacture filament-wound composite cylinders could have adverse effects on future raw material costs and this Segment's ability to obtain the necessary raw materials. Additionally, the price of brass, a raw material used for certain valves production, continued to increase during 2005, despite expectations that it would moderate. Should brass prices continue to increase in 2006, this could result in reduced operating income for certain products to the extent that such costs cannot be passed along to customers.
- Weak market conditions and increased costs impacted the valves business during 2005. A comprehensive strategic plan was developed and is currently being executed to mitigate these conditions. The plan includes the following: a new senior management team; development and marketing of new products; focus on an expanded international customer base; consolidating certain manufacturing process; process improvements within the manufacturing operations including outsourcing; and optimization of the organizational structure of the business. If the conditions encountered during 2005 persist, despite execution of the strategic action plan, the valuation of this business could be negatively impacted.
- Despite a decline in 2005, the propane business is expected to improve in 2006, as it returns to its more normal business cycle.
- The industrial cylinder and cryogenics equipment businesses are expected to show continued improved performance in 2006.

Engineered Products and Services ("all other") Category:

- International demand for the railway track maintenance services and equipment business' products and services has been strong and is expected to remain so in 2006. However, on a comparative basis, 2006 sales are expected to be less than 2005 due to the shipment of several large machine orders in 2005. Despite this expected decrease in sales, operating income is expected to increase due to increased volume of higher-margin industrial services and manufacturing process improvements and efficiencies that are expected to improve margins on a long-term basis. Additionally, higher-margin international equipment sales will continue to be pursued by this business.
- The industrial grating business is expected to sustain its current levels of sales and operating income for 2006. It is expected that the incremental business received in 2005, as a result of recent hurricanes, will be replaced with new market opportunities.
- Although cost inflation for steel and certain commodities started to moderate in 2005, worldwide supply and demand for steel could have an adverse effect on raw material costs and the ability to obtain the necessary raw materials for most businesses in this Category.
- Consistent, sustained profitable results are expected from the roofing granules and abrasives business, although increased energy costs could impact margins. This business is pursuing the use of more energy-efficient equipment

to help mitigate the increased energy-related costs.

- Due to an improving natural gas market and additional North American opportunities, demand for air-cooled heat exchangers is expected to remain strong for 2006.

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**Results of Operations for 2005, 2004 and 2003**

(Dollars are in millions, except per share information and percentages)

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenues from continuing operations	\$ <b>2,766.2</b>	\$ 2,502.1	\$ 2,118.5
Cost of services and products sold	<b>2,099.4</b>	1,916.4	1,604.4
Selling, general and administrative expenses	<b>393.2</b>	368.4	330.0
Other expenses	<b>2.0</b>	4.9	7.0
Operating income from continuing operations	<b>268.9</b>	209.8	173.9
Interest expense	<b>41.9</b>	41.1	40.5
Income tax expense from continuing operations	<b>64.8</b>	49.0	41.7
Income from continuing operations	<b>156.8</b>	113.5	87.0
Income/(loss) from discontinued operations	<b>(0.1)</b>	7.7	5.2
Net income	<b>156.7</b>	121.2	92.2
Diluted earnings per common (continuing operations)	<b>3.73</b>	2.73	2.12
Diluted earnings per common share	<b>3.72</b>	2.91	2.25
Effective income tax rate for continuing operations	<b>28.1%</b>	28.6%	30.7%
Consolidated effective income tax rate	<b>28.1%</b>	29.1%	31.0%

**Comparative Analysis of Consolidated Results****Revenues**2005 vs. 2004

Revenues for 2005 increased \$264.1 million or 11% from 2004, to a record level. This increase was attributable to the following significant items:

**In millions**

**Change in Revenues 2005 vs. 2004**

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- \$ 72.5 Net increased revenues in the Access Services Segment due principally to improved markets in the North America and the strength of the international business, particularly in the Middle East and Europe (excluding the net effect of acquisitions and divestitures).
- 41.9 Net increased volume, new contracts and price changes in the Mill Services Segment (excluding acquisitions).
- 38.0 Net increased revenues in the railway track maintenance services and equipment business due to increased contract services (principally in the U.K.), rail equipment sales (primarily to international customers) and repair part sales.
- 32.2 Increased revenues of the air-cooled heat exchangers business due to an improved natural gas market.
- 31.0 Net increased revenues in the Gas Technologies Segment due principally to improved market conditions for industrial cylinders, cryogenics equipment and composite-wrapped cylinders, partially offset by slightly decreased demand for propane tanks. The decrease in propane tank sales was due to customers accelerating purchases in 2004 to avoid anticipated price increases due to commodity cost inflation.
- 16.5 Net effect of business acquisitions and divestitures. Increased revenues of \$4.0 and \$12.5 million in the Mill Services and Access Services Segments, respectively.
- 14.8 Effect of foreign currency translation.
- 12.4 Increased revenues of the industrial grating products business due to increased demand (partially due to the effects of Hurricanes Katrina and Rita) and, to a lesser extent, increased prices and a more favorable product mix.
- 4.8 Other (minor changes across the various units not already mentioned).
- \$ 264.1 Total Change in Revenues 2005 vs. 2004

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2004 vs. 2003

Revenues for 2004 increased \$383.5 million or 18% from 2003, to a record level at that time. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Revenues 2004 vs. 2003</b>
\$ 108.9	Effect of foreign currency translation.
83.1	Net increased volume, new contracts and price changes in the Mill Services Segment.
43.5	Net increased revenues in the Gas Technologies Segment due principally to improved market conditions and selling price increases, partially offset by decreased demand for liquid propane gas (LPG) valves in the patio grill market and for composite-wrapped cylinders.
36.1	Effect of business acquisitions. Increased revenues of \$27.5 and \$8.6 million in the Mill Services and Access Services Segments, respectively.
33.6	Net increased revenues in the railway track maintenance services and equipment business due principally to rail equipment sales and, to a lesser extent, contract services.
33.4	Net increased revenues in the Access Services Segment due principally to the strength of the concrete forming business, particularly in the Middle East and U.K.
20.1	Increased revenues of the industrial grating products business due to increased demand and a focus on higher-margin standard product orders.
18.9	Increased revenues of the air-cooled heat exchangers business due to improved natural gas markets.
5.9	Other (minor changes across the various units not already mentioned).
\$ 383.5	Total Change in Revenues 2004 vs. 2003

**Cost of Services and Products Sold**2005 vs. 2004

Cost of services and products sold for 2005 increased \$183.0 million or 10% from 2004, slightly lower than the 11% increase in revenues. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Cost of Services and Products Sold 2005 vs. 2004</b>
\$ 177.8	Increased costs due to increased revenues (exclusive of the effect of foreign currency translation and business acquisitions and including the impact of increased costs included in selling prices).
12.7	Effect of foreign currency translation.
4.1	Net effect of business acquisitions and divestitures.
(11.6)	Other (due to product mix; stringent cost controls; process improvements; and minor changes across the various units not already mentioned; partially offset by increased fuel and energy-related costs).
\$ 183.0	Total Change in Cost of Services and Products Sold 2005 vs. 2004

2004 vs. 2003

Cost of services and products sold for 2004 increased \$312.0 million or 19% from 2003, slightly higher than the 18% increase in revenues. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Cost of Services and Products Sold 2004 vs. 2003</b>
\$ 186.2	Increased costs due to increased revenues (exclusive of effect of foreign currency translation and including the impact of increased costs included in increased selling prices).
80.9	Effect of foreign currency translation.
32.8	Effect of business acquisitions.
12.1	Other (due to increased commodity costs, increased fuel and energy-related costs, product mix and minor changes across the various units not already mentioned; partially offset by stringent cost controls, process improvements, and reorganization actions).
\$ 312.0	Total Change in Cost of Services and Products Sold 2004 vs. 2003



**Selling, General and Administrative Expenses**2005 vs. 2004

Selling, general and administrative expenses for 2005 increased \$24.8 million or 7% from 2004, less than the 11% increase in revenues. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Selling, General and Administrative Expenses 2005 vs. 2004</b>
\$ 6.5	Increased employee compensation expense due to salary increases, increased payroll taxes and employee incentive plan increases due to improved performance, partially offset by decreased defined benefit pension expense.
5.6	Net effect of business acquisitions and dispositions.
3.5	Increased sales commission expense due to increased revenues.
1.9	Increased costs on a comparative basis due to income generated by the termination of postretirement benefit plans in 2004 that were not repeated in 2005.
1.4	Increased travel expenses.
1.0	Increased professional fees due to special projects.
0.4	Effect of foreign currency translation.
4.5	Other (including energy-related costs and the cost of new technology projects).
\$ 24.8	Total Change in Selling, General and Administrative Expenses 2005 vs. 2004

2004 vs. 2003

Selling, general and administrative expenses for 2004 increased \$38.4 million or 12% from 2003, less than the 18% increase in revenues. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Selling, General and Administrative Expenses 2004 vs. 2003</b>
\$ 17.9	Effect of foreign currency translation.
5.4	Increased professional fees due to higher external auditor fees (related to Sarbanes-Oxley Section 404) and increased consulting and legal expense.
4.4	Increased sales commission expense due to increased revenues.
4.2	Increased pension expense in the Access Services Segment
1.7	Effect of business acquisitions - principally SGB Raffia in Australia
4.8	Other (including energy-related costs partially offset by process improvements and reorganization efforts).
\$ 38.4	Total Change in Selling, General and Administrative Expenses 2004 vs. 2003

**Other Expenses**

This income statement classification includes impaired asset write-downs, employee termination benefit costs and costs to exit activities, offset by net gains on the disposal of non-core assets. During 2005, the Company continued its strategy to streamline operations. This strategy included the sale of certain assets related to exiting an underperforming Mill Services contract; the sale of certain assets and the Youngman light access manufacturing unit in the Access Services Segment; and, where appropriate, headcount reductions in both administrative and operating positions. These actions resulted in net Other Expenses of \$2.0 million in 2005 compared with \$4.9 million in 2004 and \$7.0 million in 2003.

2005 vs. 2004

Net Other Expenses for 2005 decreased \$2.9 million or 59% from 2004. This decrease was attributable to the following significant items:

<b>In millions</b>	<b>Change in Other Expenses 2005 vs. 2004</b>
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- \$ (8.2) Increase in net gains on disposals of non-core assets. This increase was attributable principally to \$9.7 million in net gains that were realized in 2005 from the sale of non-core assets principally within the Access Services and Mill Services Segments compared with \$1.5 million in 2004.
- 5.2 Increase in employee termination benefit costs. This increase related principally to increased costs in the Mill Services and Access Services Segments as well as the Engineered Products and Services (“all other”) Category and the Corporate headquarters compared with 2004.
- 0.1 Increase in other expenses.
- \$ (2.9) Total Change in Other Expenses 2005 vs. 2004

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2004 vs. 2003

Other Expenses for 2004 decreased \$2.1 million or 30% from 2003. This decrease was attributable to the following significant items:

<b>In millions</b>	<b>Change in Other Expenses 2004 vs. 2003</b>
\$ (2.2)	Decline in employee termination benefit costs. This decline related principally to reduced costs in the Mill Services and Access Services Segments compared with 2003.
(1.7)	Decrease in costs to exit activities.
2.0	Decline in net gains on disposals of non-core assets. This decline was attributable principally to \$3.2 million in net gains that were realized in 2003 from the sale of non-core assets within the Access Services and Mill Services Segments compared with \$1.5 million in 2004.
(0.2)	Increase in other expenses.
\$ (2.1)	Total Change in Other Expenses 2004 vs. 2003

For additional information, see Note 15, Other (Income) and Expenses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

**Interest Expense**

2005 vs. 2004

Interest expense in 2005 was \$0.9 million or 2% higher than in 2004. This was principally due to higher interest rates on variable interest rate borrowings in the United States and, to a lesser extent, increased borrowings in November and December 2005 to finance acquisitions. This was partially offset by approximately \$0.3 million of decreased interest expense due to the effect of foreign currency translation.

2004 vs. 2003

Interest expense in 2004 was \$0.5 million or 1% higher than in 2003. Approximately \$2.7 million of the increase was due to the effect of foreign currency translation. This was partially offset by a lower interest rate on the Company's \$150 million notes that were refinanced in the third quarter of 2003, and lower variable interest rate borrowings.

**Income Tax Expense from Continuing Operations**

2005 vs. 2004

The increase in 2005 of \$15.7 million or 32% in the provision for income taxes from continuing operations was primarily due to increased earnings from continuing operations for the reasons mentioned above, partially offset by a decreased effective income tax rate. The effective income tax rate relating to continuing operations for 2005 was 28.1% versus 28.6% for 2004. The decrease related principally to reduced effective income tax rates on international earnings and remittances, partially offset by reduced favorable settlements of tax contingencies in comparison with 2004. The differences on international earnings and remittances from 2004 to 2005 included a one-time benefit recorded in the fourth quarter of 2005 of \$2.7 million associated with funds repatriated under the American Jobs Creation Act of 2004 (AJCA). Additionally, during the fourth quarter of 2005, consistent with the Company's strategic plan of investing for growth at certain international locations, the Company received a one-time income tax benefit of \$3.6 million.

2004 vs. 2003

The increase in 2004 of \$7.3 million or 18% in the provision for income taxes from continuing operations was primarily due to increased earnings from continuing operations, partially offset by a decreased effective income tax rate. The effective income tax rate relating to continuing operations for 2004 was 28.6% versus 30.7% for 2003. The decrease in the effective income tax rate from 2003 to 2004 was primarily the result of the benefit of foreign tax credits related to the American Jobs Creation Act of 2004 (AJCA) and the settlement of certain tax contingencies. The

settlements of tax contingencies included the adjustment of certain U.S. federal and state income tax contingencies due to favorable outcomes. Additionally, during the fourth quarter of 2004, the Company recorded a favorable income tax expense adjustment related to prior periods, which was not material, and which was mostly offset by increases in certain international tax contingencies, state income taxes and the amount of international earnings subject to U.S. income taxes.

For additional information, see Note 9, Income Taxes, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

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## Income from Continuing Operations

### 2005 vs. 2004

Income from continuing operations in 2005 of \$156.8 million was \$43.2 million or 38% higher than 2004. This increase resulted from strong demand for most of the Company's services and products (principally from the Access Services Segment and industrial grating products) that resulted in increased revenues, as well as from stringent cost controls and process improvements that contained selling, general and administrative expenses growth to a level below revenue growth.

### 2004 vs. 2003

Income from continuing operations in 2004 of \$113.5 million was \$26.5 million or 31% higher than 2003. This increase primarily resulted from increased revenues, a decreased effective income tax rate, stringent cost controls, process improvements and reorganization actions that contained selling, general and administrative expenses growth to a 12% increase while revenue increased 18%.

## Income from Discontinued Operations

### 2005 vs. 2004

Income from discontinued operations for 2005 decreased \$7.8 million or 101% from 2004. This decrease was attributable principally to after-tax income from the one-time settlement of the Company's Federal Excise Tax (FET) litigation in 2004. For additional information on the FET litigation see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," in the Company's 2004 Form 10-K.

### 2004 vs. 2003

Income from discontinued operations for 2004 increased \$2.5 million or 47% from 2003. This increase was attributable to the following significant items:

<b>In millions</b>	<b>Change in Income from Discontinued Operations 2004 vs. 2003</b>
\$ 3.1	After-tax income due to the settlement of the Company's Federal Excise Tax (FET) litigation in 2004 compared with after-tax income due to favorable developments in the FET litigation in 2003. For additional information on the FET litigation see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," to the Company's 2004 Form 10-K.
(0.6)	Decline in after-tax income related to the sale of the Company's Capitol Manufacturing business during 2002.
\$ 2.5	Total Change in Income from Discontinued Operations 2004 vs. 2003

## Net Income and Earnings Per Share

### 2005 vs. 2004

Net income of \$156.7 million and diluted earnings per share of \$3.72 in 2005 exceeded 2004 by \$35.4 million and \$0.81, respectively, primarily due to increased income from continuing operations, partially offset by the decrease in income from discontinued operations for the reasons described above.

### 2004 vs. 2003

Net income of \$121.2 million and diluted earnings per share of \$2.91 in 2004 exceeded 2003 by \$29.0 million and \$0.66, respectively, primarily due to increased income from both continuing and discontinued operations for the reasons described above.

## **Liquidity and Capital Resources**

### **Overview**

Building on 2004's record cash provided by operations of \$270.5 million, the Company continued that trend by achieving a record \$315.3 million in operating cash in 2005. This represents a 17% improvement from 2004. This significant source of cash in recent years has enabled the Company to invest \$290.2 million in capital expenditures (over one-half of which were for revenue-growth projects) in 2005, in addition to paying \$49.9 million in stockholder dividends. Additionally, the

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Company received \$39.5 million in cash from asset sales in 2005, including the sale of the Youngman light-access manufacturing unit in October 2005. The Company almost doubled its goal of \$20 million in asset sales for 2005.

In 2005, the Company continued with the execution of its strategy of sensible bolt-on acquisitions to further enhance its industrial services growth, expand its geographic footprint, and increase Economic Value Added (EVA®). During the year (principally the fourth quarter), the Company invested \$394.5 million in three strategic acquisitions. These acquisitions were initially financed through the U.S. and euro commercial paper programs, and are the main reason for the increase of \$415.4 million in net cash borrowings during 2005. These borrowings also resulted in an increase in the Company's total debt to \$1.0 billion at December 31, 2005, 50% of which is variable-rate debt. For additional information on these acquisitions, see Note 2, Acquisitions and Dispositions, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

The Company's strategic objectives for 2006 include generating a record \$400 million in net cash provided by operating activities. The Company has targeted a minimum of \$100 million of discretionary cash flows for debt reduction; however, the amount of debt reduction will be affected by the timing of growth initiatives and the amount of asset sales. The Company will continue its strategy to redeploy excess or discretionary cash in new long-term, high-renewal-rate service contracts for the Mill Services business and for growth in the Access Services and railway track maintenance services businesses, and it will continue to consider sensible bolt-on acquisitions in the industrial services business. The Company also plans to continue its long and consistent history of paying dividends to stockholders.

The Company also intends to focus on improved working capital management. Specifically, accounts receivable in the Access Services Segment and inventory levels in the manufacturing businesses will continue to be scrutinized and challenged to improve the Company's use of funds.

In order to provide increased financial flexibility for potential growth-related investments and for general corporate requirements, the Company increased its credit facilities and commercial paper programs during the fourth quarter of 2005 as follows:

#### Summary of Changes to Credit Facilities and Commercial Paper Programs

(In millions)	September 30, 2005 Facility Limit	December 31, 2005 Facility Limit	Change
U.S. commercial paper program	\$ 350.0	\$ 400.0	\$ 50.0
Euro commercial paper program (a)	120.5	236.8	116.3
Revolving credit facility (b)	350.0	450.0	100.0
Supplemental credit facility (b)	—	100.0	100.0
Bilateral credit facility (c)	25.0	50.0	25.0
Totals	\$ 845.5	\$ 1,236.8	\$ 391.3

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- (a) 100 million euros expanded to 200 million euros
- (b) U.S.-based program
- (c) International-based program

Additionally, the Company is considering increasing the maximum limit of the U.S. commercial paper program to \$450 million and potentially refinancing some or all of its outstanding commercial paper with a longer-term facility in the first half of 2006.

**Cash Requirements**

The following summarizes the Company's expected future payments related to contractual obligations and commercial commitments at December 31, 2005.

**Contractual Obligations as of December 31, 2005 (a)**

(In millions)	Total	Less than 1 year	Payments Due by Period		
			1-3 years	4-5 years	After 5 years
Short-term Debt	\$ 98.0	\$ 98.0	\$ —	\$ —	—
Long-term Debt (including current maturities and capital leases)	911.9	6.1	18.6	733.8	153.4
Projected interest payments on Long-term Debt (b)	262.3	52.9	97.6	90.9	20.9
Pension and Other Post- retirement Obligations (c)	469.1	39.0	81.5	89.9	258.7
Operating Leases	144.8	41.0	51.7	29.4	22.7
Purchase Obligations	113.6	110.4	0.8	2.2	0.2
Foreign Currency Forward Exchange Contracts (d)	157.9	157.9	—	—	—
Total Contractual Obligations	\$ 2,157.6	\$ 505.3	\$ 250.2	\$ 946.2	\$ 455.9

(a) See Note 6, Debt and Credit Agreements; Note 7, Leases; Note 8, Employee Benefit Plans; and Note 13, Financial Instruments, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures on short-term and long-term debt; operating leases; pensions and other postretirement benefits; and foreign currency forward exchange contracts, respectively.

(b) The total projected interest payments on Long-term Debt are based upon borrowings, interest rates and foreign currency exchange rates as of December 31, 2005. The interest rates on variable-rate debt and the foreign currency exchange rates are subject to changes beyond the Company's control and may result in actual interest expense and payments differing from the amounts projected above.

(c) Amounts represent expected benefit payments for the next 10 years.

(d) This amount represents the notional value of the foreign currency exchange contracts outstanding at December 31, 2005. Due to the nature of these transactions, there will be offsetting cash flows to these contracts, with the difference recognized as a gain or loss in the consolidated income statement. See Note 13, Financial Instruments, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

**Off-Balance Sheet Arrangements** - The following table summarizes the Company's contingent commercial commitments at December 31, 2005. These amounts are not included in the Company's Consolidated Balance Sheet since there are no current circumstances known to management indicating that the Company will be required to make payments on these contingent obligations.

**Commercial Commitments as of December 31, 2005**

(In millions)	Total Amounts Committed	Less Than 1 Year	Amount of Commitment Expiration Per Period			
			1-3 Years	4-5 Years	Over 5 Years	Indefinite Expiration
Standby Letters of Credit	\$ 113.5	\$ 104.4	\$ 9.1	\$ —	\$ —	\$ —
Guarantees	33.4	10.1	0.7	0.1	0.9	21.6
Performance Bonds	16.2	9.7	0.8	—	—	5.7
Other Commercial Commitments	12.8	1.7	—	—	—	11.1
Total Commercial Commitments	\$ 175.9	\$ 125.9	\$ 10.6	\$ 0.1	\$ 0.9	\$ 38.4



As of December 31, 2005, there was a decrease in the standby letters of credit and performance bonds of approximately \$88.6 million from the total \$218.3 million outstanding at December 31, 2004. This decrease was due principally to the release in January 2005 of an \$80 million surety bond and a \$9 million standby letter of credit, both related to the Company's settled Federal Excise Tax (FET) dispute, as previously reported on Form 10-K for 2004.

Certain guarantees and performance bonds are of a continuous nature and do not have a definite expiration date.

### Sources and Uses of Cash

The Company's principal sources of liquidity are cash from operations and borrowings under its various credit agreements, augmented periodically by cash proceeds from asset sales. The primary drivers of the Company's cash flow from operations are the Company's sales and income, particularly in the services businesses. The Company's long-term Mill Services contracts provide predictable cash flows for several years into the future. (See "Certainty of Cash Flows" section for additional information on estimated future revenues of Mill Services contracts and order backlogs for the Company's manufacturing businesses and railway track maintenance services business). Additionally, cash returns on capital investments made in prior years, for which no cash is currently required, are a significant source of operating cash. Depreciation expense related to these investments is a non-cash charge. The Company also continues to maintain working capital at a manageable level based upon the requirements and seasonality of the business.

Major uses of operating cash flows and borrowed funds include payroll costs and related benefits; pension funding payments; raw material purchases for the manufacturing businesses; income tax payments; interest payments; insurance premiums and payments of self-insured casualty losses; and machinery, equipment, automobile and facility rental payments. Other primary uses of cash include capital investments, principally in the industrial services businesses; debt payments; and dividend payments. Cash will also be used for bolt-on acquisitions as the appropriate opportunities arise.

**Resources available for cash requirements** - The Company has various credit facilities and commercial paper programs available for use throughout the world. The following chart illustrates the amounts outstanding under credit facilities and commercial paper programs and available credit as of December 31, 2005.

### Summary of Credit Facilities and Commercial Paper Programs

(In millions)	As of December 31, 2005		
	Facility Limit	Outstanding Balance	Available Credit
U.S. commercial paper program	\$ 400.0	\$ 351.3	\$ 48.7
Euro commercial paper program	236.8	127.5	109.3
Revolving credit facility (a)	450.0	—	450.0
Supplement credit facility (a)	100.0	—	100.0
Bilateral credit facility (b)	50.0	—	50.0
<b>Totals at December 31, 2005</b>	<b>\$ 1,236.8</b>	<b>\$ 478.8</b>	<b>\$ 758.0 (c)</b>

(a)  
(b)

U.S.-based Program  
International-based Program

(c)

Although the Company has significant available credit, it is the Company's policy to limit aggregate commercial paper and credit facility borrowings at any one time to a maximum of \$600 million.

See Note 6, Debt and Credit Agreements, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for more information on the Company's credit facilities.

**Credit Ratings and Outlook** - The following table summarizes the Company's debt ratings as of December 31, 2005:

		<b>U.S.-Based</b>	
	<b>Long-term Notes</b>	<b>Commercial Paper</b>	<b>Outlook</b>
Standard & Poor's (S&P)	A-	A-2	Stable
Moody's	A3	P-2	Stable
Fitch	A-	F2	Stable

The Company's euro-based commercial paper program has not been rated since the euro market does not require it. In January 2006, Fitch reaffirmed its A- and F-2 ratings for the Company's long-term notes and U.S. commercial paper, respectively, and its stable outlook. S&P and Moody's reaffirmed their ratings for the Company in December 2005. A downgrade to the Company's credit rating would probably increase the costs to the Company to borrow funds. An improvement in the Company's credit rating would probably decrease the costs to the Company to borrow funds.

**Working Capital Position** - Changes in the Company's working capital are reflected in the following table:

<b>(Dollars are in millions)</b>	<b>December 31</b>	<b>December 31</b>	<b>Increase</b>
	<b>2005</b>	<b>2004</b>	<b>(Decrease)</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 120.9	\$ 94.1	\$ 26.8
Accounts receivable, net	666.3	555.2	111.1
Inventories	251.1	217.0	34.1
Other current assets	60.4	58.6	1.8
Assets held for sale	2.3	1.0	1.3
Total current assets	<b>1,101.0</b>	925.9	175.1
<b>Current Liabilities</b>			
Notes payable and current maturities	104.0	31.1	72.9
Accounts payable	247.2	220.3	26.9
Accrued compensation	75.7	63.8	11.9
Income taxes	42.3	40.2	2.1
Other current liabilities	279.2	223.0	56.2
Liabilities associated with assets held for sale	—	0.7	(0.7)
Total current liabilities	<b>748.4</b>	579.1	169.3
<b>Working Capital</b>	\$ <b>352.6</b>	\$ 346.8	\$ 5.8
<b>Current Ratio</b>	<b>1.5:1</b>	1.6:1	

Working capital increased 2% in 2005 due principally to the effect of the Hünnebeck and BISNH acquisitions and, to a lesser extent, increased sales activity, partially offset by negative foreign currency translation. Changes to specific working capital components in 2005 were due to the following factors:

- Cash increased by \$26.8 million as of December 31, 2005 due principally to acquisitions.
- Net receivables increased by \$111.1 million in 2005. This increase was principally due to acquisitions and increases in insurance receivables (primarily related to claims covered by third-party insurance). Partially offsetting these increases were decreases in the Access Services Segment due to divestitures of the Youngman operations and negative foreign currency translation related to the weakening of the British pound sterling.

- Inventory increased by \$34.1 million in 2005 due principally to acquisitions.
- Notes payable and current maturities increased \$72.9 million in 2005 due principally to the increase in net cash borrowings for the acquisitions, a portion of which has been classified to current based on the Company's intent and ability to repay it in 2006.

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- Accounts payable increased \$26.9 million in 2005. This increase was due principally to acquisitions. Partially offsetting this increase were decreases in the Mill Services and Access Services Segments due to negative foreign currency translation and the timing of payments.
- Other current liabilities increased \$56.2 million in 2005. This increase was due principally to acquisitions and increases in accrued insurance liabilities (primarily related to claims covered by third-party insurance).

**Certainty of Cash Flows** - The certainty of the Company's future cash flows is underpinned by the long-term nature of the Company's mill services contracts. At December 31, 2005, the Company's mill services contracts had estimated future revenues of \$4.3 billion, compared with \$3.7 billion as of December 31, 2004. This increase is principally due to the acquisition of BISNH. In addition, as of December 31, 2005, the Company had an order backlog of \$275.8 million for its manufacturing businesses and railway track maintenance services, compared with \$243.0 million as of December 31, 2004. This increase is due principally to new railway track maintenance services contracts and new orders for heat exchangers partially offset by decreased orders for railway track maintenance equipment in the Engineered Products and Services ("all other") Category. The railway track maintenance services and equipment business backlog includes a significant portion that is long-term, which will not be realized until 2007 and later due to the long lead times necessary to build certain equipment, and the long-term nature of certain service contracts. Backlog for scaffolding, shoring and forming services and for roofing granules and slag abrasives is not included in the total backlog because it is generally not quantifiable, due to the timing and nature of the products and services provided.

The types of products and services that the Company provides are not subject to rapid technological change, which increases the stability of related cash flows. Additionally, each of the Company's businesses is among the top three companies (relative to sales) in the industries and markets the Company serves. Due to these factors, the Company is confident in its future ability to generate positive cash flows from operations.

### Cash Flow Summary

The Company's cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

#### Summarized Cash Flow Information

(In millions)	2005	2004	2003
Net cash provided by (used in):			
Operating activities	\$ 315.3	\$ 270.5	\$ 262.8
Investing activities	(645.2)	(209.6)	(144.8)
Financing activities	369.3	(56.5)	(125.5)
Effect of exchange rate changes on cash	(12.6)	9.5	17.6
Net change in cash and cash equivalents	\$ 26.8	\$ 13.9	\$ 10.1

**Cash From Operating Activities** - Net cash provided by operating activities in 2005 was a record \$315.3 million, an increase of \$44.8 million from 2004. The increased cash from operations in 2005 resulted from the following factors:

- Increased net income in 2005 compared with 2004.
- The timing of accounts receivable collections at the railway track maintenance services and equipment business and Gas Technologies businesses, partially offset by the timing of receipts on third-party insurance claims and the timing of cash collections in the Mill Services business, resulting in a positive effect on cash from operations for

2005. The increase in receivables due to third-party insurance claims was directly offset by an increase in insurance liabilities.

- Partially offsetting the above improvements was the timing of cash payments to vendors in the railway track maintenance services and equipment business and Mill Services business, somewhat offset by favorable timing differences in the Gas Technologies business.

**Cash Used in Investing Activities** - Capital investments in 2005 were a record \$290.2 million, an increase of \$86 million from 2004. Investments were made predominantly for the industrial services businesses with 54% in the Mill Services Segment and 30% in the Access Services Segment. The Company also invested \$394.5 million principally for two acquisitions, one in Mill Services and the other in Access Services. Mill Services acquisitions included BISNH and the smaller France-based Evulca. The Access Services acquisition was the Germany-based Hünnebeck Group GmbH. See

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Note 2, Acquisitions and Dispositions, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures related to these items.

**Cash Used in Financing Activities** - The following table summarizes the Company's debt and capital positions as of December 31, 2005.

	<b>December 31 2005</b>	<b>December 31 2004</b>
<b>(Dollars are in millions)</b>		
Notes Payable and Current Maturities	\$ 104.0	\$ 31.1
Long-term Debt	905.9	594.7
Total Debt	1,009.9	625.8
Total Equity	993.9	914.2
	<b>2,003.9</b>	
Total Capital	\$ (a)	\$ 1,540.0
	<b>50.4%</b>	40.6%

(a) Does not total due to rounding.

The Company's debt as a percentage of total capital increased in 2005 due principally to the increase in net cash borrowings related to the acquisitions. Partially offsetting the increase in this ratio was the increase in total equity. The increase in total equity was principally due to increased net income, and was partially offset by negative foreign currency translation adjustments. Due to the Company's significant net investments in Continental Europe and the United Kingdom, the strengthening of the U.S. dollar in relation to the euro and the British pound sterling had a negative effect on total equity.

#### **Debt Covenants**

The Company's credit facilities and certain notes payable agreements contain covenants requiring a minimum net worth of \$475 million and a maximum debt to capital ratio of 60%. Based on balances at December 31, 2005, the Company could increase borrowings by approximately \$479.3 million and still be within its debt covenants. Alternatively, keeping all other factors constant, the Company's equity could decrease by approximately \$321.0 million and the Company would still be within its covenants. Additionally, the Company's 7.25% British pound sterling-denominated notes due October 27, 2010 include a covenant that permits the note holders to redeem their notes, at par, in the event of a change of control of the Company. The Company expects to be compliant with these debt covenants one year from now.

#### **Cash and Value-Based Management**

The Company plans to continue with its strategy of selective investing for strategic purposes for the foreseeable future. The goal of this strategy is to improve the Company's Economic Value Added (EVA®) under the program that commenced January 1, 2002. Under this program the Company evaluates strategic investments based upon the investment's economic profit. EVA equals after-tax operating profits less a charge for the use of the capital employed to create those profits (only the service cost portion of pension expense is included for EVA purposes). Therefore, value is created when a project or initiative produces a return above the cost of capital. In 2005, eight of the Company's nine divisions improved their EVA from the comparable 2004 period. The EVA discipline will continue to be used to evaluate potential acquisitions to ensure stockholder value is maximized.

The Company is committed to continue paying dividends to stockholders. The Company has increased the dividend rate for twelve consecutive years, and in February 2006, the Company paid its 223<sup>rd</sup> consecutive quarterly cash dividend. The Company also plans to continue paying down debt to the extent possible. Additionally, the Company

has authorization to repurchase up to one million of its shares through January 31, 2007.

The Company's financial position and debt capacity should enable it to meet current and future requirements. As additional resources are needed, the Company should be able to obtain funds readily and at competitive costs. The Company is well-positioned and intends to continue investing strategically in high-return projects and acquisitions, reducing debt, to the extent possible, and paying cash dividends as a means to enhance stockholder value.

**Application of Critical Accounting Policies**

The Company's discussion and analysis of its financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of



contingent liabilities. On an on-going basis the Company evaluates its estimates, including those related to pensions and other postretirement benefits, bad debts, goodwill valuation, long-lived asset valuations, inventory valuations, insurance accruals, contingencies and income taxes. The impact of changes in these estimates, as necessary, is reflected in the respective segment's operating income. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Management has discussed the development and selection of the critical accounting estimates described below with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the Company's disclosure relating to these estimates in this Management's Discussion and Analysis of Financial Condition and Results of Operations. These items should be read in conjunction with Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

### **Pension Benefits**

The Company has defined benefit pension plans in several countries. The largest of these plans are in the United Kingdom and the United States. The Company's funding policy for these plans is to contribute amounts sufficient to meet the minimum funding pursuant to U.K. and U.S. statutory requirements, plus any additional amounts that the Company may determine to be appropriate. The Company made cash contributions to its defined benefit pension plans of \$48.8 million (including \$16.9 million of discretionary payments) and \$37.8 million (including a \$10.6 million discretionary payment) during 2005 and 2004, respectively. Additionally, the Company expects to make a minimum of \$20.8 million in cash contributions to its defined benefit pension plans during 2006.

The Company accounts for its defined benefit pension plans in accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS 87), which requires that amounts recognized in financial statements be determined on an actuarial basis. A minimum liability is required to be established on the Consolidated Balance Sheet representing the amount of unfunded accumulated benefit obligation. The unfunded accumulated benefit obligation is the difference between the accumulated benefit obligation and the fair value of the plan assets at the measurement date. When it is necessary to establish an additional minimum pension liability, an equal amount is recorded as an intangible pension asset, limited to unrecognized prior service cost. Any excess amount is recorded as a reduction to Stockholders' Equity in Accumulated other comprehensive loss, net of deferred income taxes, in the Consolidated Balance Sheet. At December 31, 2005 and 2004, the Company has a gross minimum pension liability of \$215.0 million and \$239.3 million, respectively. These adjustments impacted Accumulated other comprehensive loss in the Stockholders' Equity section of the Consolidated Balance Sheets by \$14.7 million of comprehensive income, net of deferred income taxes, and \$4.5 million of comprehensive loss, net of deferred income taxes, at December 31, 2005 and 2004, respectively. When and if the fair market value of the pension plans' assets exceed the accumulated benefit obligation, the reduction to Stockholders' Equity would be fully restored to the Consolidated Balance Sheet.

Management implemented a three-part strategy to deal with the adverse market forces that have increased the unfunded benefit obligations over the last several years. These strategies included pension plan design changes, a review of funding policy alternatives and a review of the asset allocation policy and investment manager structure. With regards to plan design, the Company amended a majority of the U.S. defined benefit pension plans and certain international defined benefit pension plans so that accrued service is no longer granted for periods after December 31, 2003, although compensation increases will continue to be recognized on actual service to-date (for the U.S. plans this is limited to 10 years - through December 2013). In place of these plans, the Company established, effective January 1, 2004, defined contribution pension plans providing for the Company to contribute a specified matching amount for participating employees' contributions to the plan. Domestically, this match is made on employee contributions up to four percent of their eligible compensation. Additionally, the Company may provide a discretionary contribution of up

to two percent of compensation for eligible employees. Internationally, this match is up to six percent of eligible compensation with an additional two percent going towards insurance and administrative costs. The Company believes these new retirement benefit plans will provide a more predictable and less volatile pension expense than existed under the defined benefit plans.

The Company's pension committee continues to evaluate alternative strategies to further reduce overall pension expense including the on-going evaluation of investment fund managers' performance; the balancing of plan assets and liabilities; the risk assessment of all multi-employer pension plans; the possible merger of certain plans; the consideration of incremental cash contributions to certain plans; and other changes that could reduce future pension expense volatility and minimize risk.

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*Critical Estimate - Defined Benefit Pension Benefits*

Accounting for defined benefit pensions and other postretirement benefits requires the use of actuarial assumptions. The principal assumptions used include the discount rate and the expected long-term rate of return on plan assets. Each assumption is reviewed annually and represents management's best estimate at that time. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of unfunded benefit obligation and the expense recognized.

The discount rates as of the September 30, 2005 measurement date for the U.K. defined benefit pension plan and the October 31, 2005 measurement date for the U.S. defined benefit pension plans were 5.25% and 5.87%, respectively. These rates were used in calculating the Company's projected benefit obligations as of December 31, 2005. The discount rates selected represent the average yield on high-quality corporate bonds as of the measurement dates. The global weighted-average of these assumed discount rates for the years ending December 31, 2005, December 31, 2004 and December 31, 2003 were 5.3%, 5.7% and 5.9%, respectively. Annual pension expense is determined using the discount rate as of the beginning of the year, which for 2006 is the 5.3% global weighted-average discount rate. Pension expense and the projected benefit obligation generally increase as the selected discount rate decreases.

The expected long-term rate of return on plan assets is determined by evaluating the portfolios' asset class return expectations with the Company's advisors as well as actual, long-term, historical results of asset returns for the pension plans. The pension expense increases as the expected long-term rate of return on assets decreases. For 2005, the global weighted-average expected long-term rate of return on asset assumption was 7.8%. For 2006, the expected global long-term rate of return on assets has been reduced to 7.6%. This rate was determined based on a model of expected asset returns for an actively managed portfolio.

Based on the updated actuarial assumptions and the structural changes in the pension plans mentioned previously, the Company's 2006 pension expense is expected to stabilize. Total pension expense decreased from 2004 to 2005 by \$1.7 million due principally to lower defined benefit pension expense in the United Kingdom. This resulted from plan design changes in 2004 when certain defined benefit plans were replaced by defined contribution plans. Total pension expense increased from 2003 to 2004 by \$6.4 million due to lower interest rates, the effect of foreign currency translation, increased expenses for multi-employer pension plans due to the change in the Company's revenue mix and higher defined contribution pension expense. These increases were partially offset by a decrease of approximately \$5.6 million in defined benefit pension expense due to the design changes made to those plans.

Changes in pension benefit expense may occur in the future due to changes in actuarial assumptions and due to changes in returns on plan assets resulting from financial market conditions. Holding all other assumptions constant, a one-half percent increase or decrease in the discount rate and the expected long-term rate of return on plan assets would increase or decrease annual 2006 pre-tax defined benefit pension expense as follows:

	<b>Approximate Changes in Pre-tax Defined Benefit Pension Expense</b>	
	<b><u>U.S. Plans</u></b>	<b><u>U.K. Plan</u></b>
<b><u>Discount rate</u></b>		
One-half percent increase	Decrease of \$1.8 million	Decrease of \$4.8 million
One-half percent decrease	Increase of \$2.0 million	Increase of \$5.2 million
<b><u>Expected long-term rate of return on plan assets</u></b>		

One-half percent increase	Decrease of \$1.2 million	Decrease of \$3.0 million
One-half percent decrease	Increase of \$1.2 million	Increase of \$3.0 million

Should circumstances change that affect these estimates, changes (either increases or decreases) to the net pension obligations may be required and would be recorded in accordance with the provisions of SFAS 87. Additionally, certain events could result in the pension obligation changing at a time other than the annual measurement date. This would occur when the benefit plan is amended or when plan curtailments occur.

See Note 8, Employee Benefit Plans, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures related to these items.

### **Notes and Accounts Receivable**

Notes and accounts receivable are stated at their net realizable value through the use of an allowance for doubtful accounts. The allowance is maintained for estimated losses resulting from the inability or unwillingness of customers to make required payments. The Company has policies and procedures in place requiring customers to be evaluated for creditworthiness prior to the execution of new service contracts or shipments of products. These reviews are structured to minimize the Company's risk related to realizability of its receivables. Despite these policies and procedures, the Company may still experience collection problems and potential bad debts due to economic conditions within certain industries (e.g., construction and steel industries) and countries and regions in which the Company operates. As of December 31, 2005 and 2004, receivables of \$666.3 million and \$555.2 million, respectively, were net of reserves of \$24.4 million and \$19.1 million, respectively. The increase in reserves from December 31, 2004 related principally to the acquisition of businesses.

#### *Critical Estimate - Notes and Accounts Receivable*

A considerable amount of judgment is required to assess the realizability of receivables, including the current creditworthiness of each customer, related aging of the past due balances and the facts and circumstances surrounding any non-payment. The Company's provisions for bad debts during 2005, 2004 and 2003 were \$6.5 million, \$5.0 million and \$3.4 million, respectively.

On a monthly basis, customer accounts are analyzed for collectibility. Reserves are established based upon a specific-identification method as well as historical collection experience, as appropriate. The Company also evaluates specific accounts when it becomes aware of a situation in which a customer may not be able to meet its financial obligations due to a deterioration in its financial condition, credit ratings or bankruptcy. The reserve requirements are based on the facts available to the Company and are re-evaluated and adjusted as additional information is received. Reserves are also determined by using percentages (based upon experience) applied to certain aged receivable categories. Specific issues are discussed with Corporate Management and any significant changes in reserve amounts or the write-off of balances must be approved by a specifically designated Corporate Officer. All approved items are monitored to ensure they are recorded in the proper period. Additionally, any significant changes in reserve balances are reviewed to ensure the proper Corporate approval has occurred.

If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Conversely, an improvement in a customer's ability to make payments could result in a decrease of the allowance for doubtful accounts. Changes in the allowance related to both of these situations would be recorded through income in the period the change was determined.

The Company has not materially changed its methodology for calculating allowances for doubtful accounts for the years presented.

See Note 3, Accounts Receivable and Inventories, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures related to these items.

### **Goodwill**

The Company's net goodwill balances were \$559.6 million and \$433.1 million, as of December 31, 2005 and 2004, respectively. Goodwill is not amortized but tested for impairment at the reporting unit level on an annual basis, and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit's goodwill may exceed its fair value.

#### *Critical Estimate - Goodwill*

A discounted cash flow model is used to estimate the fair value of a reporting unit. This model requires the use of long-term planning estimates and assumptions regarding industry-specific economic conditions that are outside the control of the Company. The annual test for impairment includes the selection of an appropriate discount rate to value cash flow information. The basis of this discount rate calculation is derived from several internal and external factors. These factors include, but are not limited to, the average market price of the Company's stock, the number of shares of stock outstanding, the book value of the Company's debt, a long-term risk-free interest rate, and both market and size-specific risk premiums. The Company's annual goodwill impairment testing, performed as of October 1, 2005 and 2004, indicated that the fair value of all reporting units tested exceeded their respective book values and therefore no additional goodwill impairment testing was required. Due to uncertain market conditions, it is possible that estimates used for goodwill impairment testing may change in the future. Therefore, there can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

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The Company has not materially changed its methodology for goodwill impairment testing for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

See Note 5, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional information on goodwill and other intangible assets.

### **Asset Impairment**

Long-lived assets are reviewed for impairment when events and circumstances indicate that the book value of an asset may be impaired. The amounts charged against pre-tax income related to impaired long-lived assets were \$0.6 million, \$0.4 million and \$0.1 million in 2005, 2004 and 2003, respectively.

#### *Critical Estimate - Asset Impairment*

The determination of a long-lived asset impairment loss involves significant judgments based upon short and long-term projections of future asset performance. Impairment loss estimates are based upon the difference between the book value and the fair value of the asset. The fair value is generally based upon the Company's estimate of the amount that the assets could be bought or sold for in a current transaction between willing parties. If quoted market prices for the asset or similar assets are unavailable, the fair value estimate is generally calculated using a discounted cash flow model. Should circumstances change that affect these estimates, additional impairment charges may be required and would be recorded through income in the period the change was determined.

The Company has not materially changed its methodology for calculating asset impairments for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

### **Inventories**

Inventories are stated at the lower of cost or market. Inventory balances are adjusted for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and its estimated market value. At December 31, 2005 and 2004, inventories of \$251.1 million and \$217.0 million, respectively, are net of lower of cost or market reserves of \$3.2 million and \$0.9 million, respectively.

#### *Critical Estimate - Inventories*

In assessing the ultimate realization of inventory balance amounts, the Company is required to make judgments as to future demand requirements and compare these with the current or committed inventory levels. If actual market conditions are determined to be less favorable than those projected by management, additional inventory write-downs may be required and would be recorded through income in the period the determination is made. Additionally, the Company records reserves to adjust a substantial portion of its U.S. inventory balances to the last-in, first-out (LIFO) method of inventory valuation. In adjusting these reserves throughout the year, the Company estimates its year-end inventory costs and quantities. At December 31 of each year, the reserves are adjusted to reflect actual year-end inventory costs and quantities. During periods of inflation, the LIFO expense usually increases and during periods of deflation it decreases. These adjustments resulted in pre-tax income/(expense) of \$1.7 million, \$(4.3) million and \$1.5 million in 2005, 2004 and 2003, respectively.

The Company has not materially changed its methodology for calculating inventory reserves for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

See Note 3, Accounts Receivable and Inventories, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures related to these items.

**Insurance Reserves**

The Company retains a significant portion of the risk for property, workers' compensation, U.K. employers' liability, automobile, general and product liability losses. At December 31, 2005 and 2004 the Company has recorded liabilities of \$102.3 million and \$77.4 million, respectively, related to both asserted as well as unasserted insurance claims. At December 31, 2005, \$25.2 million is included in insurance liabilities related to claims covered by insurance carriers for which a corresponding receivable has been recorded. There were no such liabilities recognized as of December 31, 2004 since there were no probable claim amounts in excess of the Company's deductible limits.



*Critical Estimate - Insurance Reserves*

Reserves have been recorded based upon actuarial calculations which reflect the undiscounted estimated liabilities for ultimate losses including claims incurred but not reported. Inherent in these estimates are assumptions which are based on the Company's history of claims and losses, a detailed analysis of existing claims with respect to potential value, and current legal and legislative trends. If actual claims differ from those projected by management, changes (either increases or decreases) to insurance reserves may be required and would be recorded through income in the period the change was determined. During 2005, 2004 and 2003, the Company recorded retrospective insurance reserve adjustments that decreased pre-tax insurance expense for self-insured programs by \$4.1 million, \$2.7 million and \$5.7 million, respectively. The adjustments resulted from improved claims experience, aggressive claim and insured litigation management programs and an improved focus on workplace safety.

The Company has not materially changed its methodology for calculating insurance reserves for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

**Legal and Other Contingencies**

Reserves for contingent liabilities are recorded when it is probable that an asset has been impaired or a liability has been incurred and the loss can be reasonably estimated. Adjustments to estimated amounts are recorded as necessary based on new information or the occurrence of new events or the resolution of an uncertainty. Such adjustments are recorded in the period that the required change is identified.

*Critical Estimate - Legal and Other Contingencies*

On a quarterly basis, recorded contingent liabilities are analyzed to determine if any adjustments are required. Additionally, functional department heads within each business unit are consulted monthly to ensure all issues with a potential financial accounting impact, including possible reserves for contingent liabilities have been properly identified, addressed or disposed of. Specific issues are discussed with Corporate Management and any significant changes in reserve amounts or the adjustment or write-off of previously recorded balances must be approved by a specifically designated Corporate Officer. If necessary, outside legal counsel, other third parties or internal experts are consulted to assess the likelihood and range of outcomes for a particular issue. All approved changes in reserve amounts are monitored to ensure they are recorded in the proper period. Additionally, any significant changes in reported business unit reserve balances are reviewed to ensure the proper Corporate approval has occurred. On a quarterly basis, the Company's business units submit a reserve listing to the Corporate headquarters which is reviewed in detail. All significant reserve balances are discussed with a designated Corporate Officer to assess their validity, accuracy and completeness. Anticipated changes in reserves are identified for follow-up prior to the end of a reporting period. Any new issues that may require a reserve are also identified and discussed to ensure proper disposition. Additionally, on a quarterly basis, all significant environmental reserve balances or issues are evaluated to assess their validity, accuracy and completeness.

The Company has not materially changed its methodology for calculating legal and other contingencies for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

See Note 10, Commitments and Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosure on this uncertainty and other contingencies.

**Income Taxes**

The Company is subject to various federal, state and local income taxes in the taxing jurisdictions where the Company operates. At the end of each quarterly period, the Company makes its best estimate of the annual effective income tax

rate and applies that rate to year-to-date pre-tax income to arrive at the year-to-date income tax provision. Income tax loss contingencies are recorded in the period when it is determined that it is probable that a liability has been incurred and the loss can be reasonably estimated. Adjustments to estimated amounts are recorded as necessary based upon new information, the occurrence of new events or the resolution of an uncertainty. As of December 31, 2005, 2004 and 2003, the Company's net effective income tax rate was 28.1%, 29.1% and 31.0%, respectively.

A valuation allowance to reduce deferred tax assets is evaluated on a quarterly basis. The valuation allowance is principally for tax-loss carryforwards which are uncertain as to realizability. The valuation allowance was \$21.7 million and \$17.5 million as of December 31, 2005 and 2004, respectively.

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*Critical Estimate - Income Taxes*

The annual effective income tax rates are developed giving recognition to tax rates, tax holidays, tax credits and capital losses, as well as certain exempt income and non-deductible expenses in all of the jurisdictions where the Company does business. The income tax provision for the quarterly period is the change in the year-to-date provision from the previous quarterly period.

The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event the Company were to determine that it would more likely than not be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would decrease income in the period in which such determination was made.

The Company has not materially changed its methodology for calculating income tax expense for the years presented. There are currently no known trends, demands, commitments, events or uncertainties that are reasonably likely to occur that would materially affect the methodology or assumptions described above.

See Note 9, Income Taxes, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for additional disclosures related to these items.

**New Financial Accounting Standards Issued**

See Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," for disclosures on new financial accounting standards issued and their effect on the Company.

**Research and Development**

The Company invested \$2.7 million, \$2.6 million and \$3.3 million in internal research and development programs in 2005, 2004 and 2003, respectively. Internal funding for research and development was as follows:

(In millions)	Research and Development Expense					
	2005		2004		2003	
Mill Services Segment	\$	1.4	\$	1.3	\$	1.3
Access Services Segment		0.5		0.4		0.5
Gas Technologies Segment		0.2		0.3		0.6
Segment Totals		2.1		2.0		2.4
Engineered Products and Services ("all other") Category		0.6		0.6		0.9
Consolidated Totals	\$	2.7	\$	2.6	\$	3.3

**Backlog**

As of December 31, 2005, the Company's order backlog, exclusive of long-term mill services contracts, access services and roofing granules and slag abrasives, was \$275.8 million compared with \$243.0 million as of December 31, 2004, a 13% increase.

(In millions)	Order Backlog			
	2005		2004	
Gas Technologies Segment	\$	45.2	\$	48.7
Engineered Products and Services ("all other") Category		230.6		194.3

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Consolidated Backlog	\$	<b>275.8</b>	\$	243.0
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The Gas Technologies Segment order backlog at December 31, 2005 was 7% below the December 31, 2004 order backlog. The change primarily reflects decreased order backlog for propane gas tanks.

Order backlog for the Engineered Products and Services (“all other”) Category at December 31, 2005 was 19% above the December 31, 2004 order backlog. The change is principally due to increased order backlog of air-cooled heat exchangers and railway track

maintenance services, partially offset by decreased order backlog of railway track maintenance equipment. Order backlog for roofing granules and slag abrasives is excluded from the above amounts. Order backlog amounts for that product group are generally not quantifiable due to the nature and timing of the products provided.

Mill services contracts have an estimated future value of \$4.3 billion at December 31, 2005 compared with \$3.7 billion at December 31, 2004. Approximately 58% of these revenues are expected to be recognized by December 31, 2008. The remaining revenues are expected to be recognized between January 1, 2009 and December 31, 2014.

Order backlog for scaffolding, shoring and forming services of the Access Services Segment is excluded from the above amounts. These amounts are generally not quantifiable due to the nature and timing of the products and services provided.

#### **Dividend Action**

The Company paid four quarterly cash dividends of \$0.30 per share in 2005, for an annual rate of \$1.20. This is an increase of 9.1% from 2004. At the November 2005 meeting, the Board of Directors increased the dividend by 8.3% to an annual rate of \$1.30 per share. The Board normally reviews the dividend rate periodically during the year and annually at its November meeting. There are no material restrictions on the payment of dividends.

The February 2006 payment marked the 223rd consecutive quarterly dividend paid at the same or at an increased rate. In 2005, 32% of net earnings were paid out in dividends. The Company is philosophically committed to maintaining or increasing the dividend at a sustainable level. The Company has paid dividends each year since 1939.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

See Part I, Item 1A, "Risk Factors," for quantitative and qualitative disclosures about market risk.

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

Index to Consolidated Financial Statements and Supplementary Data

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### Management's Report on Internal Control Over Financial Reporting

Management of Harsco Corporation, together with its consolidated subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management has assessed the effectiveness of its internal control over financial reporting as of December 31, 2005 based on the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting is effective as of December 31, 2005. As permitted by SEC rules and regulations, the Company's management has excluded Hünnebeck Group GmbH and the Northern Hemisphere mill services operations of Brambles Industrial Services ("BISNH") from its assessment of internal control over financial reporting as of December 31, 2005 because they were acquired in November and December 2005, respectively. Total assets and total revenues for these acquisitions represented 18% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2005. Additional information on these acquisitions is provided in Note 2, "Acquisitions and Dispositions."

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing below, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.

/s/ Derek C. Hathaway

/s/ Salvatore D. Fazzolari

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Derek C. Hathaway  
Chairman and Chief Executive Officer  
March 13, 2006

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Salvatore D. Fazzolari  
President, Chief Financial Officer and  
Treasurer  
March 13, 2006





**Report of Independent Registered Public Accounting Firm**

To Stockholders of Harsco Corporation:

We have completed integrated audits of Harsco's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Harsco Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)2 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of

management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As described in "Management's Report on Internal Control Over Financial Reporting," management has excluded Hünnebeck Group GmbH ("Hünnebeck") and the Northern Hemisphere mill services operations of Brambles Industrial Services ("BISNH") from its assessment of internal control over financial reporting as of December 31, 2005 because they were acquired by the Company in purchase business combinations during 2005. Hünnebeck and BISNH total assets and total revenues represent 18% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2005.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
March 13, 2006

**HARSCO CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)	December 31 2005	December 31 2004 (a)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 120,929	\$ 94,093
Accounts receivable, net	666,252	555,191
Inventories	251,080	217,026
Other current assets	60,436	58,614
Assets held-for-sale	2,326	932
<b>Total current assets</b>	<b>1,101,023</b>	<b>925,856</b>
Property, plant and equipment, net	1,139,808	932,298
Goodwill, net	559,629	433,125
Intangible assets, net	78,839	10,837
Other assets	96,505	87,640
<b>Total assets</b>	<b>\$ 2,975,804</b>	<b>\$ 2,389,756</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Short-term borrowings	\$ 97,963	\$ 16,145
Current maturities of long-term debt	6,066	14,917
Accounts payable	247,179	220,322
Accrued compensation	75,742	63,776
Income taxes payable	42,284	40,227
Dividends payable	13,580	12,429
Insurance liabilities	47,244	23,470
Other current liabilities	218,345	187,111
Liabilities associated with assets held-for-sale	—	691
<b>Total current liabilities</b>	<b>748,403</b>	<b>579,088</b>
Long-term debt	905,859	594,747
Deferred income taxes	123,334	95,702
Insurance liabilities	55,049	53,960
Retirement plan liabilities	98,946	97,586
Other liabilities	50,319	54,483
<b>Total liabilities</b>	<b>1,981,910</b>	<b>1,475,566</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, Series A junior participating cumulative preferred stock	-	-
Common stock, par value \$1.25, issued 68,257,785 and 67,911,031 shares as of December 31, 2005 and 2004, respectively	85,322	84,889
Additional paid-in capital	154,017	139,532
Accumulated other comprehensive loss	(167,318)	(127,491)
Retained earnings	1,526,216	1,420,637
Treasury stock, at cost (26,474,609 and 26,479,782 shares, respectively)	(603,225)	(603,377)
Unearned stock-based compensation	(1,118)	-
<b>Total stockholders' equity</b>	<b>993,894</b>	<b>914,190</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,975,804</b>	<b>\$ 2,389,756</b>

(a)

Reclassified for comparative purposes.

See accompanying notes to consolidated financial statements.

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**HARSCO CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

Years ended December 31	2005	2004	2003
<b>Revenues from continuing operations:</b>			
Service sales	\$ 1,928,539	\$ 1,764,159	\$ 1,493,942
Product sales	837,671	737,900	624,574
<b>Total revenues</b>	<b>2,766,210</b>	<b>2,502,059</b>	<b>2,118,516</b>
<b>Costs and expenses from continuing operations:</b>			
Cost of services sold	1,425,222	1,313,075	1,104,873
Cost of products sold	674,177	603,309	499,500
Selling, general and administrative expenses	393,187	368,385	329,983
Research and development expenses	2,676	2,579	3,313
Other expenses	2,000	4,862	6,955
<b>Total costs and expenses</b>	<b>2,497,262</b>	<b>2,292,210</b>	<b>1,944,624</b>
<b>Operating income from continuing operations</b>	<b>268,948</b>	<b>209,849</b>	<b>173,892</b>
Equity in income of unconsolidated entities, net	74	128	321
Interest income	3,165	2,319	2,202
Interest expense	(41,918)	(41,057)	(40,513)
<b>Income from continuing operations before income taxes and minority interest</b>	<b>230,269</b>	<b>171,239</b>	<b>135,902</b>
Income tax expense	(64,771)	(49,034)	(41,708)
<b>Income from continuing operations before minority interest</b>	<b>165,498</b>	<b>122,205</b>	<b>94,194</b>
Minority interest in net income	(8,748)	(8,665)	(7,195)
<b>Income from continuing operations</b>	<b>156,750</b>	<b>113,540</b>	<b>86,999</b>
<b>Discontinued operations:</b>			
Loss from operations of discontinued business	(430)	(801)	(668)
Gain/(loss) on disposal of discontinued business	261	(102)	765
Income related to discontinued defense business	20	12,849	8,030
Income tax benefit (expense)	56	(4,275)	(2,909)
<b>Income/(loss) from discontinued operations</b>	<b>(93)</b>	<b>7,671</b>	<b>5,218</b>
<b>Net Income</b>	<b>\$ 156,657</b>	<b>\$ 121,211</b>	<b>\$ 92,217</b>
Average shares of common stock outstanding	<b>41,642</b>	<b>41,129</b>	<b>40,690</b>
Basic earnings per common share:			
Continuing operations	\$ 3.76	\$ 2.76	\$ 2.14
Discontinued operations	—	0.19	0.13
<b>Basic earnings per common share</b>	<b>\$ 3.76</b>	<b>\$ 2.95</b>	<b>\$ 2.27</b>

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Diluted average shares of common stock outstanding	<b>42,080</b>	41,598	40,973
Diluted earnings per common share:			
Continuing operations	\$ <b>3.73</b>	\$ 2.73	\$ 2.12
Discontinued operations	—	0.18	0.13
<b>Diluted earnings per common share</b>	<b>\$ 3.72 (a)</b>		