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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event Reported): March 6, 2006**

**FLOWERVE CORPORATION**

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction  
of incorporation)

1-13179  
(Commission File Number)

31-0267900  
(I.R.S. Employer Identification No.)

5215 N. O'Connor Blvd., Suite 2300, Irving, Texas  
(Address of principal executive offices)

75039  
(Zip Code)

Registrant's telephone number, including area code: ( 972) 443 — 6500

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01. Entry into a Material Definitive Agreement.**

On March 6, 2006, Flowserve Corporation (the “Company”) entered into Restrictive Covenants Agreements (the “Restrictive Covenants Agreements”) with each of its executive officers and certain of its corporate officers (each referred to herein as an “Officer,” and collectively as the “Officers”). The Restrictive Covenants Agreements provide that the Officer will not disclose or inappropriately use any of the Company’s confidential information during the period of the Officer’s employment or at any time thereafter, except as required by law or as directed by the Company. The Restrictive Covenants Agreements also provide that the Officers shall not, at any time during the Officer’s employment or for a period of one year thereafter (the “Non-Competition Period”):

- work in any capacity for a Competing Business (as defined in the Restrictive Covenants Agreement), except that the Officer may own the securities of any business traded on any national securities exchange or NASDAQ, provided that the Officer is not a controlling person of such business and provided further that the Officer may not own three percent or more of any class of securities of such business;
- solicit business from or attempt to transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four months and with whom the Officer had contact during his or her employment with the Company; or
- hire or solicit for employment any current employee of the Company or former employee of the Company whose employment with the Company ceased less than three months earlier.

In the event that the Officer accepts or intends to accept an offer from a Competing Business (as defined in the Restrictive Covenants Agreements), the Restrictive Covenants Agreements provide that the Company may, in its sole discretion, invoke the non-competition requirements as described above and the Officer will be eligible to receive severance payments (as outlined in the Restrictive Covenants Agreement) during the Non-Competition Period.

The Restrictive Covenants Agreements entered into by Lewis M. Kling, Mark A. Blinn, Ronald F. Shuff, Joseph R. Pinkston, III, John H. Jacko, Jr., Mark D. Dailey, Thomas E. Ferguson, Andrew J. Beall, Jerry L. Rockstroh, Richard J. Guiltinan, Jr., and Deborah K. Bethune also provide that if the Officer breaches any of the restrictions described above it will entitle the Company to:

- require Officer to forfeit all stock options granted to Officer through Officer’s 2006 Incentive Stock Option Agreement and/or Officer’s 2006 Nonqualified Stock Option Agreement which have not vested as of the date of such violation
- require Officer to forfeit all stock granted to Officer through Officer’s 2006 Restricted Stock Agreement which has not vested as of the date of such violation;
- require Officer to sell to the Company all shares of the Company Officer acquired by exercising the stock options Officer received through Officer’s 2006 Incentive Stock Agreement and/or 2006 Nonqualified Stock Option Agreement and which vested within twelve (12) months prior to the date of such violation for the lesser of (a) the exercise price paid by Officer for such shares or (b) the fair market value of such shares on the date of sale to the Company;
- require Officer to sell to the Company all stock granted to Officer through Officer’s 2006 Restricted Stock Agreement which vested within twelve (12) months

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prior to the date of such violation for the fair market value of such shares on the date of sale to the Company;

- recover from Officer any gain that Officer realized on the sale of any shares of the Company acquired by Officer pursuant to Officer's 2006 Incentive Stock Agreement, Officer's 2006 Restricted Stock Agreement and/or Officer's 2006 Nonqualified Stock Option Agreement which vested within twelve (12) months prior to the date of such violation;
- discontinue future grants of stock, stock options (whether qualified or nonqualified) or other equity awards under any equity incentive plan in which Officer may participate;
- obtain damages incurred by the Company as a result of the breach and recover its attorneys' fees, costs and expenses incurred in such actions, in addition to any other legal remedies.

The above discussion of the Restrictive Covenants Agreements is a summary description and is qualified in its entirety by the terms and conditions of the Restrictive Covenants Agreements. For complete descriptions of the terms and conditions summarized in this current report on Form 8-K, reference the Form Restrictive Covenants Agreements attached hereto as Exhibits 10.1 and 10.2 which are incorporated herein by reference.

### **Item 8.01 Other Events.**

Pursuant to previous delegation of authority by the Compensation Committee of the Board of Directors, and in correlation with the Restrictive Covenants Agreements discussed above, the Company has incorporated new restrictive terms into the new forms of agreements for grants of restricted stock, incentive stock options, and nonqualified stock options (collectively, the "New Award Agreements") under the Company's 2004 Stock Compensation Plan (the "2004 Plan"). Certain officers of the Company will be required to enter into the New Award Agreements in connection with future grants under the 2004 Plan.

The New Award Agreements are attached hereto as Exhibits 10.3, 10.4 and 10.5.

### **Item 9.01 Financial Statements and Exhibits.**

#### (d) Exhibits

Exhibit Number	Description
10.1	Form of Restrictive Covenants Agreement entered into on March 6, 2006 between the Company and each of Linda P. Jojo, Thomas L. Pajonas and Paul W. Fehlman.
10.2	Form of Restrictive Covenants Agreement entered into on March 6, 2006 between the Company and each of Lewis M. Kling, Mark A. Blinn, Ronald F. Shuff, Joseph R. Pinkston, III, John H. Jacko, Jr., Mark D. Dailey, Thomas E. Ferguson, Andrew J. Beall, Jerry L. Rockstroh, Richard J. Guiltinan, Jr., and Deborah K. Bethune.
10.3	Form of Restricted Stock Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.
10.4	Form of Incentive Stock Option Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.

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<u>Exhibit Number</u>	<u>Description</u>
10.5	Form of Nonqualified Stock Option Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLOWERVE CORPORATION

By: /s/ Ronald F. Shuff  
Ronald F. Shuff  
Vice President, Secretary and General Counsel

Date: March 9, 2006

**Index to Exhibits**

Exhibit Number	Description
10.1	Form of Restrictive Covenants Agreement entered into on March 6, 2006 between the Company and each of Linda P. Jojo, Thomas L. Pajonas and Paul W. Fehlman.
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10.3	Form of Restricted Stock Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.
10.4	Form of Incentive Stock Option Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.
10.5	Form of Nonqualified Stock Option Agreement for certain officers pursuant to the Company's 2004 Stock Compensation Plan.

**RESTRICTIVE COVENANTS AGREEMENT**

This Agreement, dated March 6, 2006, is by and between Flowserve Corporation. ("the Company") and \_\_\_\_\_ ("Executive"). The parties agree as follows:

1. **Executive's Employment with the Company.** The Company hereby employs or continues to employ Executive through a subsidiary of the Company, subject to the terms and conditions of this Agreement, Flowserve Corporation's Code of Business Conduct, and Flowserve's policies and procedures. Executive agrees to provide full-time services for the Company during the term of this Agreement. Executive agrees to devote all of his/her time, energy, skill and best efforts to the performance of his/her job duties and to the business of the Company, and shall perform his/her duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. Executive shall not at any time during the term of this Agreement work on any basis (including part-time or as an independent contractor) for a Competing Business (defined in Section 3) and shall not participate in any material way in any other business that is not a Competing Business. Further, Executive's participation in any business that is not a Competing Business shall at all times comply with the policies of the Company. Executive's employment with the Company is on an at-will basis, meaning that either Executive or the Company may terminate the employment relationship at any time and for any reason not expressly prohibited by law. The at-will nature of Executive's employment cannot be modified orally, but instead may be modified only by written agreement signed by the Chief Executive Officer of the Company.

2. **The Company's Promise to Provide Confidential Information and Executive's Non-Disclosure Agreement.**

(a) **Confidential Information.** Immediately upon Executive's execution of this Agreement, and continuing on an ongoing basis during Executive's employment, the Company agrees to provide Executive with new Confidential Information (defined below) to which Executive has not previously had access. For purposes of this Agreement, "***Confidential Information***" includes any trade secrets or confidential or proprietary information of the Company, including, but not limited to, the following:

(i) Information concerning customers, clients, marketing, business and operational methods of the Company and their customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by any of the Company;

(ii) Business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;

(iii) Financial data, strategies, systems, research, plans, reports, recommendations and conclusions;

(iv) Names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and

(v) Any non-public matter or thing obtained or ascertained by Executive through Executive's association with the Company, the use or disclosure of which might reasonably be construed to be contrary to the best interests of any the Company.

(b) **Non-Disclosure.** In exchange for the Company's promise to provide Executive with Confidential Information, Executive shall not, during the period of Executive's employment or at any time thereafter, disclose to anyone, or publish, or use for any purpose, any Confidential Information, except as: (i) required in the ordinary course of the Company's business or Executive's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of Executive's employment for any reason, Executive shall immediately return and deliver to the Company any and all Confidential Information, computers, hard-drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in Executive's possession, custody or control, whether prepared by Executive or others. If at any time after termination of Executive's employment, for any reason, Executive determines that Executive has any Confidential Information in Executive's possession or control, Executive shall immediately return to the Company all such Confidential Information in Executive's possession or control, including all copies and portions thereof.

### **3. Executive's Non-Competition, Non-Solicitation, and Non-Recruitment Covenants.**

(a) **The Restrictive Covenants.** In Section 2, the Company promised to provide Executive with new and on-going Confidential Information. Executive recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort, and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company for which there is no adequate remedy at law, including damage to the Company's business goodwill. For these reasons, Executive agrees that to protect the Company's Confidential Information and business goodwill, it is necessary to enter into the following restrictive covenants:

Executive, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees that during Executive's employment and for a period of one (1) year following the date on which Executive's employment ceases (for whatever reason) (the "**Non-Competition Period**"), Executive shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) **Non-Competition.** Become employed by, advise, perform services or otherwise engage in any capacity with a Competing Business in the Restricted Area. For purposes of this Agreement, "**Competing Business**" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and Executive's job duties are international in scope, the "**Restricted Area**" is worldwide. However, Executive may own, directly or indirectly, solely as an investment, securities of any business traded on any national securities exchange or NASDAQ, provided that Executive is not a controlling person of, or member of a group that controls such business, and provided further that Executive does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business.



(ii) Non-Solicitation. Solicit business from, attempt to transact business with, or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (1) Executive contacted, called on, serviced, did business with or had contact with during Executive's employment or that Executive attempted to contact, call on, service, or do business with during Executive's employment; or (2) Executive became acquainted with or dealt with, for any reason, as a result of Executive's employment with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(iii) Non-Recruitment. Hire, solicit for employment, induce or encourage to leave the employment of the Company or its subsidiaries, or otherwise cease their employment with the Company or its subsidiaries, on behalf of himself/herself or any other person or entity any current employee of the Company or its subsidiaries or any former employee of the Company or its subsidiaries whose employment ceased than less than three (3) months earlier.

(b) Remedies. Executive acknowledges that the restrictions contained in this Section 3, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 2 or Section 3.

(i) Injunctive relief and damages. Executive acknowledges and agrees that a breach of Section 2 and/or Section 3 will result in irreparable harm and continuing damage to the Company, and that money damages would be not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, Executive agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach of Section 2 or Section 3, and to recover the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs.

(c) Severance Pay. If the Company learns that Executive has accepted or intends to accept a position which would violate Section 3(a)(i), the Company has the sole discretion to invoke the requirements of Section 3(a)(i). If that occurs, Executive will be eligible for Severance Pay while Section 3(a)(i) is in effect. For purposes of this section, "Severance Pay" means the Company will continue to pay Executive an amount equal to Executive's base salary as in effect on his/her date of termination of employment from the Company (less applicable withholdings and taxes) for the length of time in which Section 3(a)(i) is in effect. Severance Pay does not include any other form of compensation such as bonuses, commissions, stock grants, stock options, fringe benefits, company paid cell phone, automobile allowance, health or medical benefits, etc. Severance Pay will be payable in regular intervals in accordance with the Company's payroll practices. The Company will subtract from the Severance Pay: (1) the value of any compensation and benefits (including but not limited to wages, salary, bonuses, allowances, commissions, stock and stock options) Executive receives from any Competing Business; (2) the value of any severance pay, separation pay and/or separation benefits Executive receives from the Company, including but not limited to, any pay or benefits Executive receives under the Flowserve Corporation Transitional Executive Security Plan, any pay or benefits Executive receives under the Flowserve Corporation Reduction-in-Force Severance Benefits Plan, and any pay or benefits Executive receives under any similar plans; and (3) any other monies Executive owes to the Company, its subsidiaries or affiliates. If Executive accepts employment with another business which Flowserve

determines, in its sole discretion, is not a Competing Business while the Executive is receiving Severance Pay, the Company may terminate the Severance Pay.

(d) **Tolling.** If Executive violates any of the restrictions contained in this Section 3, the restrictive period will be suspended and will not run in favor of Executive until such time that Executive cures the violation to the satisfaction of the Company.

(e) **Notice.** If Executive, in the future, seeks or is offered employment, or any other position or capacity with a Competing Business, Executive agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 2 and Section 3. Further, before taking any employment position with any person during the Non-Competition Period, Executive agrees to give prior written notice to the Company of the name of such person. The Company shall be entitled to advise such person of the provisions of Section 2 and Section 3 and to otherwise deal with such person to ensure that the provisions of Section 2 and Section 3 are enforced and duly discharged.

4. **Non-Disparagement.** Executive agrees that the Company's goodwill and reputation are assets of great value to the Company which were obtained through great costs, time and effort. Therefore, Executive agrees that during his/her employment and after the termination of his/her employment, Executive will not in any way disparage, libel or defame the Company, its business or business practices, its products or services, or its employees.

5. **Entire Agreement.** This Agreement is the entire agreement between the parties with respect to the subject matter hereof, and supersedes any previous agreements, written or oral, between Executive and the Company with regard to the subject matter of this Agreement. Nothing in this Agreement or any of the other agreements listed above supersedes Executive's obligations under the Flowserve Code of Business Conduct and policies.

6. **Partial Invalidity.** In the event any court of competent jurisdiction holds any provision of this Agreement to be invalid or unenforceable, such invalid or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required, and the remaining provisions shall not be affected or invalidated and shall remain in full force and effect.

7. **Reformation.** Executive and the Company agree that all of the covenants contained in Section 2 and Section 3 shall survive the termination or expiration of this Agreement, and agree further that in the event any of the covenants contained in Section 2 or Section 3 shall be held by any court to be effective in any particular area or jurisdiction only if said covenant is modified to limit its duration or scope, then the court shall have such authority to so reform the covenant and the parties hereto shall consider such covenant(s) and/or other provisions of Section 2 and/or Section 3 to be amended and modified with respect to that particular area or jurisdiction so as to comply with the order of any such court and, as to all other jurisdictions, the covenants contained herein shall remain in full force and effect as originally written. Alternatively, at the sole option of the Company, the Company may consider such covenant(s) and/or provisions of Section 2 and/or Section 3 to be amended and modified so as to eliminate therefrom the particular area or jurisdiction as to which such covenants are so held void or otherwise unenforceable and, as to all other areas and jurisdictions covered hereunder, the covenants contained herein shall remain in full force and effect as originally written.

8. **Assignment of Rights.** This Agreement shall be binding upon and inure to the benefit of Executive, the Company and any parents, subsidiaries, affiliated companies, successors or assigns of the Company.

9. **Nonwaiver.** The Company's waiver of any provision of the Agreement shall not constitute (i) a continuing waiver of that provision, or (ii) a waiver of any other provision of this Agreement.

10. **Controlling Law.** Any dispute in the meaning, effect, or validity of this Agreement shall be resolved in accordance with the laws of Texas. This Agreement shall be administered and governed by the laws of Texas. Venue of any litigation arising from this Agreement shall be in a federal or state court of competent jurisdiction in Dallas County, Texas.

11. **No Previous Restrictive Agreements.** Executive represents that, except as disclosed in writing to the Company, Executive is not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of Executive's engagement by the Company or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. Executive further represents that Executive's performance of all the terms of this Agreement and Executive's work duties for the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to Executive's employment with the Company. Executive agrees that Executive will not use or disclose any confidential, proprietary or trade secret information belonging to any former employer or third party, and Executive will not bring onto the premises of the Company or onto any Company property any confidential, proprietary or trade secret information belonging to any former employer or third party without such third parties' written consent.

EXECUTIVE:

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

FLOWSERVE:

Signature: \_\_\_\_\_

Print Name: Lewis M. Kling

Title: President and Chief Executive Officer

**RESTRICTIVE COVENANTS AGREEMENT**

This Agreement, dated \_\_\_\_\_, is by and between Flowserve Corporation. ("the Company") and \_\_\_\_\_ ("Executive"). The parties agree as follows:

1. **Executive's Employment with the Company.** The Company hereby employs or continues to employ Executive through a subsidiary of the Company, subject to the terms and conditions of this Agreement, Flowserve Corporation's Code of Business Conduct, and Flowserve's policies and procedures. Executive agrees to provide full-time services for the Company during the term of this Agreement. Executive agrees to devote all of his/her time, energy, skill and best efforts to the performance of his/her job duties and to the business of the Company, and shall perform his/her duties in a diligent, trustworthy, and business-like manner, all for the purpose of advancing the business of the Company. Executive shall not at any time during the term of this Agreement work on any basis (including part-time or as an independent contractor) for a Competing Business (defined in Section 3) and shall not participate in any material way in any other business that is not a Competing Business. Further, Executive's participation in any business that is not a Competing Business shall at all times comply with the policies of the Company. Executive's employment with the Company is on an at-will basis, meaning that either Executive or the Company may terminate the employment relationship at any time and for any reason not expressly prohibited by law. The at-will nature of Executive's employment cannot be modified orally, but instead may be modified only by written agreement signed by the Chief Executive Officer of the Company.

2. **The Company's Promise to Provide Confidential Information and Executive's Non-Disclosure Agreement.**

(a) **Confidential Information.** Immediately upon Executive's execution of this Agreement, and continuing on an ongoing basis during Executive's employment, the Company agrees to provide Executive with new Confidential Information (defined below) to which Executive has not previously had access. For purposes of this Agreement, "***Confidential Information***" includes any trade secrets or confidential or proprietary information of the Company, including, but not limited to, the following:

(i) Information concerning customers, clients, marketing, business and operational methods of the Company and their customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by any of the Company;

(ii) Business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;

(iii) Financial data, strategies, systems, research, plans, reports, recommendations and conclusions;

(iv) Names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and

(v) Any non-public matter or thing obtained or ascertained by Executive through Executive's association with the Company, the use or disclosure of which might reasonably be construed to be contrary to the best interests of any the Company.

(b) **Non-Disclosure.** In exchange for the Company's promise to provide Executive with Confidential Information, Executive shall not, during the period of Executive's employment or at any time thereafter, disclose to anyone, or publish, or use for any purpose, any Confidential Information, except as: (i) required in the ordinary course of the Company's business or Executive's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of Executive's employment for any reason, Executive shall immediately return and deliver to the Company any and all Confidential Information, computers, hard-drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in Executive's possession, custody or control, whether prepared by Executive or others. If at any time after termination of Executive's employment, for any reason, Executive determines that Executive has any Confidential Information in Executive's possession or control, Executive shall immediately return to the Company all such Confidential Information in Executive's possession or control, including all copies and portions thereof.

3. **Executive's Non-Competition, Non-Solicitation, and Non-Recruitment Covenants.**

(a) **The Restrictive Covenants.** In Section 2, the Company promised to provide Executive with new and on-going Confidential Information. Executive recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort, and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company for which there is no adequate remedy at law, including damage to the Company's business goodwill. For these reasons, Executive agrees that to protect the Company's Confidential Information and business goodwill, it is necessary to enter into the following restrictive covenants:

Executive, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees that during Executive's employment and for a period of one (1) year following the date on which Executive's employment ceases (for whatever reason) (the "**Non-Competition Period**"), Executive shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) **Non-Competition.** Become employed by, advise, perform services or otherwise engage in any capacity with a Competing Business in the Restricted Area. For purposes of this Agreement, "**Competing Business**" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and Executive's job duties are international in scope, the "**Restricted Area**" is worldwide. However, Executive may own, directly or indirectly, solely as an investment, securities of any business traded on any national securities exchange or NASDAQ, provided that Executive is not a controlling person of, or member of a group that controls such business, and provided further that Executive does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business.

(ii) Non-Solicitation. Solicit business from, attempt to transact business with, or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (1) Executive contacted, called on, serviced, did business with or had contact with during Executive's employment or that Executive attempted to contact, call on, service, or do business with during Executive's employment; or (2) Executive became acquainted with or dealt with, for any reason, as a result of Executive's employment with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(iii) Non-Recruitment. Hire, solicit for employment, induce or encourage to leave the employment of the Company, or otherwise cease their employment with the Company, on behalf of himself/herself or any other person or entity, any current supervisor, manager, director, vice-president, president, officer or executive officer or any supervisor, manager, director, vice-president, president, officer or executive officer whose employment ceased than less than twelve (12) months earlier.

(b) Remedies. Executive acknowledges that the restrictions contained in this Section 3, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 2 or Section 3.

(i) Forfeiture by Executive. If Executive (1) breaches any restriction in Section 2 or Section 3, then the Company shall be entitled to (i) require Executive to forfeit all unexercised stock options granted to Executive through Executive's 2006 Incentive Stock Agreement and/or Executive's 2006 Nonqualified Stock Option Agreement (regardless of whether such stock options are vested) and terminate Executive's 2006 Incentive Stock Agreement and/or 2006 Nonqualified Stock Option Agreement as of the date of such breach; (ii) require Executive to sell all shares of Flowserve Corporation acquired by Executive through the exercise of stock options Executive received through Executive's 2006 Incentive Stock Agreement and/or 2006 Nonqualified Stock Option Agreement for the lesser of (a) the exercise price paid by Executive for such shares or (b) the fair market value of such shares on the date of sale to Flowserve Corporation; (iii) require Executive to forfeit all stock granted to Executive through Executive's 2006 Restricted Stock Agreement (regardless of whether such stock is vested); (iv) recover from Executive any gain that Executive realized on the sale of any shares of Flowserve Corporation acquired by Executive pursuant to Executive's 2006 Incentive Stock Agreement, Executive's 2006 Restricted Stock Agreement and/or Executive's 2006 Nonqualified Stock Option Agreement; (v) discontinue future grants of stock, stock options (whether qualified or nonqualified) or other equity awards under any equity incentive plan in which Executive may participate; (vi) damages incurred by the Company as a result of the breach; and, (vii) recover its attorneys' fees, costs and expenses incurred in such actions, in addition to any other legal remedies. To the extent that the provisions of this Section 3(b)(i) are inconsistent with any of the provisions of Executive's current or future equity award agreements (including, without limitation, grants of qualified and nonqualified stock options and restricted stock, granted prior to or after the date of this Agreement) or the terms and conditions of the Company's incentive, bonus or equity plans, the Company and Executive agree that the provisions of this Section 3(b)(i) shall control and the provisions of any such award agreements are hereby amended by the terms of this Section 3(b)(i).

(ii) Injunctive relief and damages. Executive acknowledges and agrees that a breach of Section 2 and/or Section 3 will result in irreparable harm and continuing damage to the Company, and that money damages would be not be a sufficient remedy to the Company for any such breach or threatened breach. Therefore, Executive agrees that the Company shall be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach of Section 2 or Section 3, and to recover the Company's attorneys' fees, costs and expenses related to any breach or threatened breach of this Agreement. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs.

(c) Severance Pay. If the Company learns that Executive has accepted or intends to accept a position which would violate Section 3(a)(i), the Company has the sole discretion to invoke the requirements of Section 3(a)(i). If that occurs, Executive will be eligible for Severance Pay while Section 3(a)(i) is in effect. The Company also has the sole discretion to not invoke, and/or to terminate after invoking, the restrictions in Section (3)(a)(i) in which case the Severance Pay will also simultaneously terminate. For purposes of this section, "Severance Pay" means the Company will continue to pay Executive an amount equal to Executive's base salary as in effect on his/her date of termination of employment from the Company (less applicable withholdings and taxes) for the length of time in which Section 3(a)(i) is in effect. Severance Pay does not include any other form of compensation such as bonuses, commissions, stock grants, stock options, fringe benefits, company paid cell phone, automobile allowance, health or medical benefits, etc. Severance Pay will be payable in regular intervals in accordance with the Company's payroll practices. The Company will subtract from the Severance Pay the value of any compensation and benefits (including but not limited to wages, salary, bonuses, allowances, commissions, stock and stock options) Executive receives from the Competing Business as well as the value of any severance pay, separation pay and/or separation benefits Executive receives from the Company. This includes but is not limited to any benefits Executive receives under the Flowserve Corporation Transitional Executive Security Plan (including but not limited to severance pay, accelerated vesting of stock and stock options, and health benefits), any benefits Executive receives under the Flowserve Corporation Reduction-in-Force Severance Benefits Plan and any benefits Executive receives under similar plans.

(d) Tolling. If Executive violates any of the restrictions contained in this Section 3, the restrictive period will be suspended and will not run in favor of Executive until such time that Executive cures the violation to the satisfaction of the Company.

(e) Notice. If Executive, in the future, seeks or is offered employment, or any other position or capacity with another company or entity, Executive agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 2 and Section 3. Further, before taking any employment position with any person during the Non-Competition Period, Executive agrees to give prior written notice to the Company of the name of such person. The Company shall be entitled to advise such person of the provisions of Section 2 and Section 3 and to otherwise deal with such person to ensure that the provisions of Section 2 and Section 3 are enforced and duly discharged.

4. Non-Disparagement. Executive agrees that the Company's goodwill and reputation are assets of great value to the Company which were obtained through great costs, time and effort. Therefore, Executive agrees that during his/her employment and after the termination of his/her employment, Executive will not in any way disparage, libel or defame the Company, its business or business practices, its products or services, or its employees.

5. **Entire Agreement.** This Agreement, Executive's 2006 Incentive Stock Agreement, Executive's 2006 Nonqualified Stock Option Agreement, Executive's 2006 Restricted Stock Agreement and Executive's Employment Agreement (if any) contain the entire agreement between the parties with respect to the subject matter hereof, and supersede any previous agreements, written or oral, between Executive and the Company with regard to the subject matter in those Agreement. If any of the provisions in Executive's 2006 Incentive Stock Agreement, 2006 Nonqualified Stock Option Agreement, 2006 Restricted Stock Agreement and/or Employment Agreement conflict, the most restrictive version will control. This Agreement does not eliminate Executive's responsibility to comply with the Flowserve Code of Business Conduct and Flowserve's other policies and procedures.

6. **Partial Invalidity.** In the event any court of competent jurisdiction holds any provision of this Agreement to be invalid or unenforceable, such invalid or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required, and the remaining provisions shall not be affected or invalidated and shall remain in full force and effect.

7. **Reformation.** Executive and the Company agree that all of the covenants contained in Section 2 and Section 3 shall survive the termination or expiration of this Agreement, and agree further that in the event any of the covenants contained in Section 2 or Section 3 shall be held by any court to be effective in any particular area or jurisdiction only if said covenant is modified to limit its duration or scope, then the court shall have such authority to so reform the covenant and the parties hereto shall consider such covenant(s) and/or other provisions of Section 2 and/or Section 3 to be amended and modified with respect to that particular area or jurisdiction so as to comply with the order of any such court and, as to all other jurisdictions, the covenants contained herein shall remain in full force and effect as originally written. Alternatively, at the sole option of the Company, the Company may consider such covenant(s) and/or provisions of Section 2 and/or Section 3 to be amended and modified so as to eliminate therefrom the particular area or jurisdiction as to which such covenants are so held void or otherwise unenforceable and, as to all other areas and jurisdictions covered hereunder, the covenants contained herein shall remain in full force and effect as originally written.

8. **Assignment of Rights.** This Agreement shall be binding upon and inure to the benefit of Executive, the Company and any parents, subsidiaries, affiliated companies, successors or assigns of the Company.

9. **Nonwaiver.** The Company's waiver of any provision of the Agreement shall not constitute (i) a continuing waiver of that provision, or (ii) a waiver of any other provision of this Agreement.

10. **Controlling Law.** Any dispute in the meaning, effect, or validity of this Agreement shall be resolved in accordance with the laws of Texas. This Agreement shall be administered and governed by the laws of Texas. Venue of any litigation arising from this Agreement shall be in a federal or state court of competent jurisdiction in Dallas County, Texas.

11. **No Previous Restrictive Agreements.** Executive represents that, except as disclosed in writing to the Company, Executive is not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of Executive's engagement by the Company or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. Executive further represents that Executive's performance of all the terms of this Agreement and Executive's work duties for the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to Executive's employment with the Company. Executive agrees that Executive will not use or disclose any confidential, proprietary or trade secret information belonging to any former employer or third party, and Executive will not bring



onto the premises of the Company or onto any Company property any confidential, proprietary or trade secret information belonging to any former employer or third party without such third parties' written consent.

EXECUTIVE:

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

FLOWSERVE:

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Restricted Stock Agreement  
Flowserve Corporation  
2004 Stock Compensation Plan**

This Restricted Stock Agreement (the “Agreement”) is made and entered into by and between Flowserve Corporation, a New York corporation (the “Company”) and \_\_\_\_\_ (the “Participant”) as of \_\_\_\_\_ (the “Date of Grant”).

W I T N E S S E T H

WHEREAS, the Company has adopted the Flowserve Corporation 2004 Stock Compensation Plan (the “Plan”) to strengthen the ability of the Company to attract, motivate and retain Employees, Outside Directors and Consultants who possess superior capabilities and to encourage such persons to have a proprietary interest in the Company; and

WHEREAS, the Organization and Compensation Committee of the Board of Directors of the Company believes that the grant of Restricted Stock to the Participant as described herein is consistent with the stated purposes for which the Plan was adopted; and

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. *Restricted Stock*

In order to encourage the Participant’s contribution to the successful performance of the Company, and in consideration of the covenants and promises of the Participant herein contained, the Company hereby grants to the Participant as of the Date of Grant, an Award of \_\_\_\_ shares of Common Stock, subject to the conditions and restrictions set forth below and in the Plan (the “Restricted Stock”).

2. *Restrictions on Transfer Before Vesting*

- (a) The Restricted Stock will be transferred of record to the Participant and a certificate or certificates representing said Restricted Stock will be issued in the name of the Participant immediately upon the execution of this Agreement. Each of such Restricted Stock certificates will bear a legend as provided by the Company, conspicuously referring to the terms, conditions and restrictions as permitted under Section 15.9 of the Plan. The Company may either deliver such Restricted Stock certificate(s) to the Participant, retain custody of such Restricted Stock certificate(s) prior to vesting (the “Restriction Period”) or require the Participant to enter into an escrow arrangement under which such Restricted Stock certificate(s) will be held by an escrow agent. The delivery of any shares of Restricted Stock pursuant to this Agreement is subject to the provisions of Paragraph 9.
- (b) Absent prior written consent of the Committee, the shares of Restricted Stock granted hereunder to the Participant may not be sold, assigned, transferred, pledged or otherwise encumbered, whether voluntarily or involuntarily, by operation of law or otherwise, from the Date of Grant until said shares shall have become vested in the Participant over the three-year period following the Date of

Grant in accordance with the following table, or as otherwise provided in Paragraph 3.

<i>Date</i>	<i>Aggregate Percentage of Shares of Restricted Stock Granted herein which are Vested</i>
Insert Date	33 1/3%
Insert Date	66 2/3%
Insert Date	100%

- (c) Consistent with the foregoing, except as contemplated by Paragraph 6, no right or benefit under this Agreement shall be subject to transfer, anticipation, alienation, sale, assignment, pledge, encumbrance or charge, whether voluntary, involuntary, by operation of law or otherwise, and any attempt to transfer, anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If the Participant or his Beneficiary hereunder shall become bankrupt or attempt to transfer, anticipate, alienate, assign, sell, pledge, encumber or charge any right or benefit hereunder, other than as contemplated by Paragraph 6, or if any creditor shall attempt to subject the same to a writ of garnishment, attachment, execution, sequestration, or any other form of process or involuntary lien or seizure, then such right or benefit shall cease and terminate.

3. *Effect of Termination of Employment or Services*

- (a) The Restricted Stock granted pursuant to this Agreement shall vest in accordance with the vesting schedule reflected in Paragraph 2(b) above, as long as the Participant remains employed by or continues to provide services to the Company or a Subsidiary. If, however, either:
- (i) the Company and its Subsidiaries terminate the Participant's employment (or if the Participant is not an Employee, determine that the Participant's services are no longer needed), or
  - (ii) the Participant terminates employment (or if the Participant is not an Employee, ceases to perform services for the Company and its Subsidiaries),
- then the shares of Restricted Stock that have not previously vested in accordance with the vesting schedule reflected in Paragraph 2(b) above, as of the date of such termination of employment (or cessation of services, as applicable), shall be forfeited by the Participant to the Company.
- (b) Notwithstanding Paragraph 3(a) above, upon the cessation of the Participant's employment or services (whether voluntary or involuntary), the Committee may, in its sole and absolute discretion, elect to accelerate the vesting of some or all of the unvested shares of Restricted Stock.

#### 4. *Forfeiture and Disgorgement Upon Competition*

- (a) Notwithstanding any provisions in this Agreement to the contrary, in the event either (A) the Participant violates the provisions of Paragraph 4(b) or the provisions of any restrictive covenants agreement by and between the Company or its subsidiaries and the Participant or (B) the Participant, or anyone acting on the Participant's behalf, brings a claim against the Company seeking to declare any term of this Paragraph 4 void or unenforceable or the provisions of any other restrictive covenants agreement by and between the Company or its subsidiaries and the Participant void or unenforceable, then:
- (i) the shares of Restricted Stock shall immediately cease to vest and all shares of Restricted Stock that have not previously vested in accordance with the vesting schedule reflected in Paragraph 2(b) above, as of the date of such violation shall be forfeited by the Participant to the Company;
  - (ii) the Participant will immediately sell to the Company all shares of Restricted Stock acquired by the Participant pursuant to this Agreement that vested within the last twelve (12) months and that Participant still owns on the date of such violation for the Fair Market Value of such Restricted Stock on the date of sale to the Company;
  - (iii) the Participant will immediately pay to the Company any gain that the Participant realized on the sale of shares of Restricted Stock acquired pursuant to this Agreement and which vested within the last twelve (12) months; and
  - (iv) the Company shall be entitled to payment by the Participant of its attorneys' fees and costs incurred in enforcing the provisions of Paragraph 4, in addition to any other legal remedies.

The provisions of this Paragraph 4 shall survive the termination or expiration of this Agreement.

- (b) By execution of this Agreement, the Participant, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees to the following from the date of grant until the date one (1) year immediately following his or her termination of employment (for any reason):

The Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

- (i) *Non-Competition*

Become employed by, advise, perform services or otherwise engage in any capacity with a Competing Business in the Restricted Area. For purposes of this Agreement, "Competing Business" means any entity or business that is in the business of providing flow management products

and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and the Participant's job duties are international in scope, the "Restricted Area" is worldwide. However, the Participant may own, directly or indirectly, solely as an investment, securities of any business traded on any national securities exchange or NASDAQ, provided that the Participant is not a controlling person of, or member of a group that controls such business, and provided further that the Participant does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business;

(ii) *Non-Solicitation*

Solicit business from, attempt to transact business with, or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (1) the Participant contacted, called on, serviced, conducted business with or had contact with during the Participant's employment or that the Participant attempted to contact, call on, service, or do business with during the Participant's employment; or (2) the Participant became acquainted with or dealt with, for any reason, as a result of the Participant's employment with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company; or

(iii) *Non-Recruitment*

Hire, solicit for employment, induce or encourage to leave the employment of the Company or its subsidiaries any current employee of the Company or any former employee of the Company or its subsidiaries whose employment ceased less than three (3) months earlier.

(c) *Confidential Information*

Immediately upon Participant's execution of this Agreement, and continuing on an ongoing basis during Participant's employment, the Company agrees to provide Participant with new Confidential Information (defined in this Paragraph 4(c)) to which Participant has not previously had access. For purposes of this Agreement, "Confidential Information" includes any trade secrets or confidential or proprietary information of the Company, including, but not limited to, the following:

- (i) information concerning customers, clients, marketing, business and operational methods of the Company and their customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by any of the Company;
- (ii) business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and

promotional practices (including internet-related marketing) and management methods and information;

- (iii) financial data, strategies, systems, research, plans, reports, recommendations and conclusions;
- (iv) names, arrangements with, or other information relating to any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and
- (v) any non-public matter or thing obtained or ascertained by Participant through Participant's association with the Company, the use or disclosure of which might reasonably be construed to be contrary to the best interests of the Company.

(d) *Non-Disclosure*

In exchange for the Company's promise to provide Participant with Confidential Information, Participant shall not, during the period of Participant's employment or at any time thereafter, disclose to anyone, or publish, or use for any purpose, any Confidential Information, except as: (i) required in the ordinary course of the Company's business or the Participant's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of Participant's employment for any reason, Participant shall immediately return and deliver to the Company any and all Confidential Information, computers, hard drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in Participant's possession, custody or control, whether prepared by Participant or others. If at any time after termination of Participant's employment, for any reason, Participant determines that Participant has any Confidential Information in Participant's possession or control, Participant shall immediately return to the Company all such Confidential Information in Participant's possession or control, including all copies and portions thereof.

- (e) By execution of this Agreement, the Participant agrees that the provisions of this Paragraph 4 shall apply to all grants (including, without limitation, grants of incentive stock options, nonqualified stock options and restricted stock) made to the Participant pursuant to the Plan in 2006 and, to the extent the provisions of such grants are inconsistent with any of the provisions of this Paragraph 4, the Company and the Participant agree that (i) the provisions of this Paragraph 4 shall control and (ii) the provisions of any such award agreements are hereby amended by the terms of this Paragraph 4.

5. *Limitation of Rights*

Nothing in this Agreement or the Plan shall be construed to:

- (a) give the Participant any right to be awarded any further Restricted Stock or any other Award in the future, even if Restricted Stock or other Awards are granted on a regular or repeated basis, as grants of Restricted Stock and other Awards are completely voluntary and made solely in the discretion of the Committee;
- (b) give the Participant or any other person any interest in any fund or in any specified asset or assets of the Company or any Subsidiary; or
- (c) confer upon the Participant the right to continue in the employment or service of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time or for any reason.

6. *Prerequisites to Benefits*

Neither the Participant, nor any person claiming through the Participant, shall have any right or interest in the Restricted Stock awarded hereunder, unless and until all the terms, conditions and provisions of this Agreement and the Plan which affect the Participant or such other person shall have been complied with as specified herein.

7. *Rights as a Stockholder*

Subject to the limitations and restrictions contained herein, the Participant (or Beneficiary) shall have all rights as a stockholder with respect to the shares of Restricted Stock, including the right to vote and receive dividends.

8. *Successors and Assigns*

This Agreement shall bind and inure to the benefit of and be enforceable by the Participant, the Company and their respective permitted successors and assigns (including personal representatives, heirs and legatees), except that the Participant may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

9. *Securities Act*

The Company will not be required to deliver any shares of Common Stock pursuant to this Agreement if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the "Securities Act") or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares, sign and deliver to the Company a written statement, which shall be in a form and contain content acceptable to the Committee, in its sole discretion ("Investment Letter"):

- (a) stating that the Participant is acquiring the shares for investment and not with a view to the sale or distribution thereof;
- (b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:
  - (i) through a broker on a national securities exchange or
  - (ii) with the prior written approval of the Company; and

- (c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

10. *Federal and State Taxes*

- (a) Any amount of Common Stock that is payable or transferable to the Participant hereunder may be subject to the payment of or reduced by any amount or amounts which the Company is required to withhold under the then applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), or its successors, or any other federal, state or local tax withholding requirement. When the Company is required to withhold any amount or amounts under the applicable provisions of the Code, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company's withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.
- (b) Notwithstanding Paragraph 10(a) above, if the Participant elects, and the Committee agrees, the Company's withholding obligations may instead be satisfied as follows:
  - (i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;
  - (ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant to satisfy the Company's withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;
  - (iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or
  - (iv) any combination of the alternatives described in Paragraphs 10(b)(i) through 10(b)(iii) above.
- (c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 10(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the delivery of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

11. *Governing Law*

This Award Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas.



12. *Definitions*

All capitalized terms in this Agreement shall have the meanings ascribed to them in the Plan unless otherwise defined in this Award Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officers thereunto duly authorized, and the Participant has hereunto set his/her hand as of the day and year first above written.

**FLOWSERVE CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

Name: \_\_\_\_\_

## INCENTIVE STOCK OPTION AGREEMENT

FLOWERVE CORPORATION  
2004 STOCK COMPENSATION PLAN

This Incentive Stock Option Agreement (the "Agreement") is made and entered into by and between Flowserve Corporation, a New York corporation (the "Company") and \_\_\_\_\_ (the "Participant") as of \_\_\_\_\_ (the "Date of Grant").

## WITNESSETH

WHEREAS, the Company has adopted the Flowserve Corporation 2004 Stock Compensation Plan (the "Plan") to strengthen the ability of the Company to attract, motivate and retain Employees, Outside Directors and Consultants who possess superior capabilities and to encourage such persons to have a proprietary interest in the Company; and

WHEREAS, the Organization and Compensation Committee of the Board of Directors of the Company believes that the granting of the Stock Option described herein to the Participant is consistent with the stated purposes for which the Plan was adopted; and

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. *Grant of Stock Option*

The Company hereby grants to the Participant the right and option (the "Stock Option") to purchase an aggregate of \_\_\_\_\_ shares (the "Shares") (such number being subject to adjustment as provided in Paragraph 10 hereof) of the Common Stock of the Company (the "Common Stock") on the terms and conditions herein set forth. This Stock Option may be exercised in whole or in part and from time to time hereinafter. This Stock Option is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Therefore, the Participant will be required to satisfy the holding period requirements that apply with respect to the Common Stock issuable upon exercise of the Stock Option in order to be eligible for the beneficial tax treatment afforded such a grant. To the extent the requisite holding period requirements are not satisfied, this Stock Option shall be deemed a NonQualified Stock Option (as defined in Section 2.17 of the Plan).

2. *Exercise Price*

The price at which the Participant shall be entitled to purchase the Common Stock covered by the Stock Option shall be \$\_\_\_ per share.

3. *Term of Stock Option*

The Stock Option granted hereby shall be and remain in force and effect during the "Option Period," which shall begin on the Date of Grant and end (the "Expiration Date") on the first to occur of:

- (a) the date that is ten (10) years from the Date of Grant; or
- (b) in the case of termination of employment with the Company or a Subsidiary, any other date specified in Paragraph 7.

4. *Exercise of Stock Option*

This Stock Option shall vest and become exercisable over three years and a day following the Date of Grant in accordance with the following table; provided, however, that this Stock Option shall cease to vest following the Participant's termination of employment and shall cease to be exercisable with respect to any portion that has been previously exercised or when the Stock Option lapses.

<i>Date</i>	<i>Aggregate Number of Shares Subject to this Stock Option which are Vested and Exercisable</i>
Insert Date	
Insert Date	
Insert Date	

5. *Method of Exercising Stock Option*

- (a) Subject to the terms and conditions of this Agreement, this Stock Option may be exercised by delivering written notice to the Organization and Compensation Committee of the Board of Directors of the Company, or any officer or officers delegated with the authority to act on such Committee's behalf pursuant to Section 3.3 of the Plan (the "Committee"), setting forth:
  - (i) the number of shares of Common Stock with respect to which the Stock Option is to be exercised;
  - (ii) the Exercise Date;
  - (iii) the Social Security number of the Participant;
  - (iv) the method of payment elected (see Paragraph 6 hereof); and
  - (v) the exact name in which the shares will be registered.
- (b) The notice described in Paragraph 5(a) above must be signed by the Participant and shall be accompanied by payment of the purchase price of such Shares. If the Stock Option is exercised by a person or persons other than the Participant pursuant to Paragraph 7 hereof, such notice must be signed by such other person or persons and must be accompanied by proof acceptable to the Committee of the legal right of such person or persons to exercise the Stock Option.

6. *Method of Payment for the Stock Option*

- (a) As a general rule, the full purchase price for the Shares purchased upon the exercise of the Stock Option (i.e., the number of shares being purchased multiplied by the price per share) must be paid in cash. The Committee may, however, in its discretion, allow the Participant to pay for the Common Stock:

- (i) in an equivalent acceptable to the Committee;
- (ii) by assigning and delivering to the Company shares of Common Stock owned by the Participant or by surrendering another Award; or
- (iii) by combination of cash, Common Stock or one or more Awards equal in value to the purchase price.

In addition, at the request of the Participant and to the extent permitted by applicable law, the Committee may approve an arrangement with a brokerage firm, under which the brokerage firm, on behalf of the Participant, will pay for shares of Stock purchased upon the exercise of the Stock Option.

In addition, at the request of the Participant and to the extent permitted by applicable law, the Committee may approve an arrangement with a brokerage firm, under which the brokerage firm, on behalf of the Participant, will pay for shares of Stock purchased upon the exercise of the Stock Option.

- (b) For purposes of this Agreement, any Common Stock used or Award surrendered to pay all or a part of the purchase price of the Stock Option will be valued at the Fair Market Value on the exercise date. Further, such payment must be accompanied by an assignment of such Common Stock on a duly executed stock power, which is on a form separate from the certificate(s) for the Common Stock, authorizing the transfer of such shares to the Company.

#### *7. Termination of Employment*

Subject to the provisions of Paragraph 9 hereof, the Option Period will end and the Stock Option, whether or not then exercisable, will lapse upon the termination of employment of a Participant as follows:

- (a) If the termination of employment is due to any reason other than Cause (as defined in Paragraph 7(b)), death, Disability (as defined in Paragraph 7(c)) or Retirement (as defined in Paragraph 7(d)), the Participant may continue to exercise the Stock Option, in whole or in part, until the earliest of:
  - (i) the date specified in Paragraph 3(a); or
  - (ii) the date which is six (6) months following the latter of the last date of active employment or the release or lapse of trading restrictions, provided, however, that to the extent the exercise date is more than three (3) months after the last date of active employment, the Stock Option will be a NonQualified Stock Option.
- (b) If the termination of employment is due to Cause (as defined in this Paragraph 7(b)), the Option Period shall end, and the Stock Option shall cease to be exercisable, as of the date of termination of the Participant's employment. "Cause" shall, in all cases, be determined by the Committee, in its sole and absolute discretion, and shall mean the willful and continued failure to substantially perform the duties of employment (other than due to death or

Disability), willful conduct that is injurious to the Company or a Subsidiary, any act of dishonesty, the commission of a felony or violation of any legal duty to the Company or a Subsidiary.

- (c) In the event of the Participant's death or total and permanent disability ("Disability"), the Participant (or in the case of death, the Participant's designated beneficiary) may continue to exercise the Stock Option, in whole or in part, until the earliest of:
  - (i) the date specified in Paragraph 3(a); or
  - (ii) the date which is one (1) year following the Participant's death or Disability (as determined by the Committee).
- (d) In the event of the Participant's Retirement (as defined in this Paragraph 7(d)), the Participant may continue to exercise the Stock Option, to the extent then vested, in whole or in part, until the earlier of: (i) the expiration of the term of the Stock Option (as specified in Paragraph 3) or (ii) five (5) years after the Participant's Retirement date, but only if, and so long as, the Participant shall refrain from competing against the Company or any Subsidiary. To the extent not exercised within three (3) months after the Participant's Retirement, the Stock Option will cease to be treated as an incentive stock option (unless, under the law governing incentive stock options as then in effect, the Stock Option may continue to be accorded incentive stock options as then in effect, the Stock Option may continue to be accorded incentive stock option treatment for a period longer or shorter than three (3) months after Retirement). "Retirement" shall, in all cases, be determined by the Committee, in its sole and absolute discretion, and shall mean the Participant's termination of employment with the Company and all Subsidiaries after reaching age sixty (60) with at least ten (10) years of service with the Company or a Subsidiary.

8. *Forfeiture and Disgorgement Upon Competition*

- (a) Notwithstanding any provisions in this Agreement to the contrary, in the event either (A) the Participant violates the provisions of Paragraph 8(b) or the provisions of any restrictive covenants agreement by and between the Company or its subsidiaries and the Participant or (B) the Participant, or anyone acting on the Participant's behalf, brings a claim against the Company seeking to declare any term of this Paragraph 8 void or unenforceable or the provisions of any other restrictive covenants agreement by and between the Company or its subsidiaries and the Participant void or unenforceable, then:
  - (i) the Stock Option will immediately cease to vest and any portion of the Stock Option that has not previously vested as of the date of such violation shall be forfeited by the Participant to the Company;
  - (ii) the Participant will immediately sell to the Company all shares acquired by the Participant pursuant to the exercise of any portion of the Stock Option that vested within the last twelve (12) months and that the Participant still owns on the date of such violation for the lesser of (a) the

exercise price paid by the Participant for such Shares or (b) the Fair Market Value of such Shares on the date of sale to the Company;

- (iii) the Participant will immediately pay to the Company any gain that the Participant realized on the sale of any Shares acquired pursuant to the exercise of the Stock Option and which vested within the last twelve (12) months; and
- (iv) the Company shall be entitled to payment by the Participant of its attorneys' fees and costs incurred in enforcing the provisions of this Paragraph 8, in addition to any other legal remedies.

- (b) By execution of this Agreement, the Participant, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees to the following from the date of grant until the date one (1) year immediately following his or her termination of employment (for any reason):

The Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

- (i) *Non-Competition*

Become employed by, advise, perform services or otherwise engage in any capacity with a Competing Business in the Restricted Area. For purposes of this Agreement, "Competing Business" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and the Participant's job duties are international in scope, the "Restricted Area" is worldwide. However, the Participant may own, directly or indirectly, solely as an investment, securities of any business traded on any national securities exchange or NASDAQ, provided that the Participant is not a controlling person of, or member of a group that controls such business, and provided further that the Participant does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business;

- (ii) *Non-Solicitation*

Solicit business from, attempt to transact business with, or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (1) the Participant contacted, called on, serviced, conducted business with or had contact with during the Participant's employment or that the Participant attempted to contact, call on, service, or do business with during the Participant's employment; or (2) the Participant became acquainted with or dealt with, for any reason, as a result of the Participant's employment

with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company; or

(iii) *Non-Recruitment*

Hire, solicit for employment, induce or encourage to leave the employment of the Company or any of its subsidiaries any current employee of the Company or any of its subsidiaries or any former employee of the Company or its subsidiaries whose employment ceased less than three (3) months earlier.

(c) *Confidential Information*

Immediately upon the Participant's execution of this Agreement, and continuing on an ongoing basis during the Participant's employment, the Company agrees to provide the Participant with new Confidential Information (defined in this Paragraph 8(c)) to which the Participant has not previously had access. For purposes of this Agreement, "Confidential Information" includes any trade secrets or confidential or proprietary information of the Company, including, but not limited to, the following:

- (i) Information concerning customers, clients, marketing, business and operational methods of the Company and their customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;
- (ii) Business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;
- (iii) Financial data, strategies, systems, research, plans, reports, recommendations and conclusions;
- (iv) Names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and
- (v) Any non-public matter or thing obtained or ascertained by the Participant through the Participant's association with the Company, the use or disclosure of which might reasonably be construed to be contrary to the best interests of the Company.

(d) *Non-Disclosure*

In exchange for the Company's promise to provide the Participant with Confidential Information, the Participant shall not, during the period of the Participant's employment or at any time thereafter, disclose to anyone, or

publish, or use for any purpose, any Confidential Information, except as: (i) required in the ordinary course of the Company's business or the Participant's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of the Participant's employment for any reason, the Participant shall immediately return and deliver to the Company any and all Confidential Information, computers, hard-drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in the Participant's possession, custody or control, whether prepared by the Participant or others. If at any time after termination of the Participant's employment, for any reason, the Participant determines that the Participant has any Confidential Information in the Participant's possession or control, the Participant shall immediately return to the Company all such Confidential Information in the Participant's possession or control, including all copies and portions thereof.

- (e) By execution of this Agreement, the Participant agrees that the provisions of this Paragraph 8 shall apply to all grants (including, without limitation, grants of incentive stock options, nonqualified stock options and restricted stock) made to the Participant pursuant to the Plan in 2006 and, to the extent the provisions of such grants are inconsistent with any of the provisions of this Paragraph 8, the Company and the Participant agree that (i) the provisions of this Paragraph 8 shall control and (ii) the provisions of any such award agreements are hereby amended by the terms of this Paragraph 8.
- (f) The provisions of Paragraph 8 shall survive the termination or expiration of this Agreement.

#### *9. Non-Transferability*

The Stock Option granted by this Agreement may only be exercisable during the term of the Option Period provided in Paragraph 3 hereof and, except as provided in Paragraph 7, only by the Participant during the Participant's lifetime. No Stock Option granted by this Agreement is transferable by the Participant other than by will or pursuant to applicable laws of descent and distribution. The Stock Option and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by operation of law, or otherwise, and is not otherwise subject to execution, attachment, garnishment or similar process. In the event of such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

#### *10. Adjustments in Number of Shares and Option Price; Change in Control*

Except as provided below, in the event that the outstanding Common Stock of the Company is increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional, new or different shares or securities are distributed with respect to the Common Stock through merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, stock dividend, stock split, reverse stock split or other distribution with respect to such Common Stock, each remaining share of Common Stock subject to this Stock Option will be substituted utilizing the principles set forth in Section 424(a) of the Code.



11. *Delivery of Shares*

No shares of Common Stock shall be delivered to the Participant upon the exercise of the Stock Option until:

- (a) the purchase price is paid in full in the manner herein provided, if applicable;
- (b) all of the applicable taxes required to be withheld have been paid or withheld in full;
- (c) the approval of any governmental authority required in connection with the Stock Option, or the issuance of shares thereunder, has been received by the Company; and
- (d) if required by the Committee, the Participant has delivered to the Committee an "Investment Letter" in form and content satisfactory to the Company as provided in Paragraph 12 hereof.

12. *Securities Act*

The Company will not be required to deliver any shares of Common Stock pursuant to the exercise of all or any part of the Stock Option if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the "Securities Act") or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares pursuant to exercise of the Stock Option sign and deliver to the Company a written statement ("Investment Letter"):

- (a) stating that the Participant is purchasing the shares for investment and not with a view to the sale or distribution thereof;
- (b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:
  - (i) through a broker on a national securities exchange; or
  - (ii) with the prior written approval of the Company; and
- (c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

Such Investment Letter shall be in a form and content acceptable to the Committee, in its sole discretion.

13. *Federal and State Taxes*

- (a) Upon the exercise of the Stock Option, or any part thereof, the Participant may incur certain liabilities for federal, state or local taxes and the Company may be required by law to withhold such taxes for payment to taxing authorities. Upon a determination by the Company that an amount is required to be withheld in order to satisfy federal, state or local taxes, absent an election described in by the

Participant to the contrary, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company's withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.

- (b) Notwithstanding Paragraph 13(a) above, if the Participant elects, and the Committee agrees, the Company's withholding obligations may instead be satisfied as follows:
- (i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;
  - (ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant to satisfy the Company's withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;
  - (iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or
  - (iv) any combination of the alternatives described in Paragraphs 13(b)(i) through 13(b)(iii) above.
- (c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 13(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the deliver of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

14. *Definitions; Copy of Plan*

Except as specifically provided otherwise herein, all capitalized terms used in this Agreement shall have the same meanings ascribed to them in the Plan. By the execution of this Agreement, the Participant acknowledges receipt of a copy of the Plan.

15. *Administration*

This Agreement is subject to the terms and conditions of the Plan. The Plan will be administered by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Plan and the decisions of the majority of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Participant and the Company. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

16. *Continuation of Employment*

This Agreement shall not be construed to confer upon the Participant any right to continued employment with the Company or a Subsidiary and shall not limit the right of the Company or

a Subsidiary (as applicable), in its sole discretion, to terminate the employment of the Participant at any time.

17. *No Right to Stock*

No Participant and no beneficiary or other person claiming under or through such Participant shall have any right, title or interest in any shares of Common Stock allocated or reserved under the Plan or subject to this Stock Option, except as to such shares of Common Stock, if any, that have been issued or transferred to such Participant.

18. *Obligation to Exercise*

The Participant shall have no obligation to exercise any Stock Option granted by this Agreement.

19. *Notice*

Any notice to be given to the Company or the Committee shall be addressed to the Company in care of its Secretary at its principal office. Any such notice shall be in writing and shall be delivered personally or shall be sent by first class mail, postage prepaid, to the Company.

20. *Governing Law*

This Agreement shall be interpreted and administered under the laws of the State of Texas.

21. *Amendments*

This Agreement may be amended only by a written agreement executed by the Company and the Participant. Any such amendment shall be made only upon the mutual consent of the parties, which consent (of either party) may be withheld for any reason.

22. *Termination*

The Company may terminate the Plan at any time; however, such termination will not modify the terms and conditions of the Stock Option granted hereunder without the Participant's consent.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officers thereunto duly authorized, and the Participant has hereunto set his hand as of the day and year first above written.

FLOWSERVE CORPORATION

By: \_\_\_\_\_  
Lewis M. Kling  
President and Chief Executive Officer

PARTICIPANT

\_\_\_\_\_

## NONQUALIFIED STOCK OPTION AGREEMENT

FLOWERVE CORPORATION  
2004 STOCK COMPENSATION PLAN

This Nonqualified Stock Option Agreement (the "Agreement") is made and entered into by and between Flowserve Corporation, a New York corporation (the "Company") and \_\_\_\_\_ (the "Participant") as of \_\_\_\_\_ (the "Date of Grant").

## WITNESSETH

WHEREAS, the Company has adopted the Flowserve Corporation 2004 Stock Compensation Plan (the "Plan") to strengthen the ability of the Company to attract, motivate and retain Employees, Outside Directors and Consultants who possess superior capabilities and to encourage such persons to have a proprietary interest in the Company; and

WHEREAS, the Organization and Compensation Committee of the Board of Directors of the Company believes that the granting of the Stock Option described herein to the Participant is consistent with the stated purposes for which the Plan was adopted; and

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. *Grant of Stock Option*

The Company hereby grants to the Participant the right and option (the "Stock Option") to purchase an aggregate of \_\_\_\_\_ shares (the "Shares") (such number being subject to adjustment as provided in Paragraph 10 hereof) of the Common Stock of the Company (the "Common Stock") on the terms and conditions herein set forth. This Stock Option may be exercised in whole or in part and from time to time hereinafter. This Stock Option is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Therefore, the Participant will not be required to satisfy any specific holding period requirements that might otherwise apply with respect to the Common Stock issuable upon exercise of the Stock Option.

2. *Exercise Price*

The price at which the Participant shall be entitled to purchase the Common Stock covered by the Stock Option shall be \$\_\_\_ per share.

3. *Term of Stock Option*

The Stock Option granted hereby shall be and remain in force and effect during the "Option Period," which shall begin on the Date of Grant and end (the "Expiration Date") on the first to occur of:

- (a) the date that is ten (10) years from the Date of Grant; or
- (b) in the case of termination of employment with the Company or a Subsidiary, any other date specified in Paragraph 7.

#### 4. *Exercise of Stock Option*

This Stock Option shall vest and become exercisable over three years and a day following the Date of Grant in accordance with the following table; provided, however, that this Stock Option shall cease to vest following the Participant's termination of employment and shall cease to be exercisable with respect to any portion that has been previously exercised or when the Stock Option lapses.

<i>Date</i>	<i>Aggregate Number of Shares Subject to this Stock Option which are Vested and Exercisable</i>
Insert Date	
Insert Date	
Insert Date	

#### 5. *Method of Exercising Stock Option*

- (a) Subject to the terms and conditions of this Agreement, this Stock Option may be exercised by delivering written notice to the Organization and Compensation Committee of the Board of Directors of the Company, or any officer or officers delegated with the authority to act on such Committee's behalf pursuant to Section 3.3 of the Plan (the "Committee"), setting forth:
  - (i) the number of shares of Common Stock with respect to which the Stock Option is to be exercised;
  - (ii) the Exercise Date;
  - (iii) the Social Security number of the Participant;
  - (iv) the method of payment elected (see Paragraph 6 hereof); and
  - (v) the exact name in which the shares will be registered.
- (b) The notice described in Paragraph 5(a) above must be signed by the Participant and shall be accompanied by payment of the purchase price of such Shares. If the Stock Option is exercised by a person or persons other than the Participant pursuant to Paragraph 7 hereof, such notice must be signed by such other person or persons and must be accompanied by proof acceptable to the Committee of the legal right of such person or persons to exercise the Stock Option.

#### 6. *Method of Payment for the Stock Option*

- (a) As a general rule, the full purchase price for the Shares purchased upon the exercise of the Stock Option (i.e., the number of shares being purchased multiplied by the price per share) must be paid in cash. The Committee may, however, in its discretion, allow the Participant to pay for the Common Stock:
  - (i) in an equivalent acceptable to the Committee;
  - (ii) by assigning and delivering to the Company shares of Common Stock owned by the Participant or by surrendering another Award; or

(iii) by combination of cash, Common Stock or one or more Awards equal in value to the purchase price.

In addition, at the request of the Participant and to the extent permitted by applicable law, the Committee may approve an arrangement with a brokerage firm, under which the brokerage firm, on behalf of the Participant, will pay for shares of Stock purchased upon the exercise of the Stock Option.

In addition, at the request of the Participant and to the extent permitted by applicable law, the Committee may approve an arrangement with a brokerage firm, under which the brokerage firm, on behalf of the Participant, will pay for shares of Stock purchased upon the exercise of the Stock Option.

- (b) For purposes of this Agreement, any Common Stock used or Award surrendered to pay all or a part of the purchase price of the Stock Option will be valued at the Fair Market Value on the exercise date. Further, such payment must be accompanied by an assignment of such Common Stock on a duly executed stock power, which is on a form separate from the certificate(s) for the Common Stock, authorizing the transfer of such shares to the Company.

#### *7. Termination of Employment*

The Option Period will end and the Stock Option, whether or not then exercisable, will lapse upon the termination of employment of a Participant as follows:

- (a) If the termination of employment is due to any reason other than Cause (as defined in Paragraph 7(b)), death, Disability (as defined in Paragraph 7(c)) or Retirement (as defined in Paragraph 7(d)), the Participant may continue to exercise the Stock Option, in whole or in part, until the earliest of:
- (i) the date specified in Paragraph 3(a); or
  - (ii) the date which is six (6) months following the latter of the last date of active employment or the release or lapse of trading restrictions.
- (b) If the termination of employment is due to Cause (as defined in this Paragraph 7(b)), the Option Period shall end, and the Stock Option shall cease to be exercisable, as of the date of termination of the Participant's employment. "Cause" shall, in all cases, be determined by the Committee, in its sole and absolute discretion, and shall mean the willful and continued failure to substantially perform the duties of employment (other than due to death or Disability), willful conduct that is injurious to the Company or a Subsidiary, any act of dishonesty, the commission of a felony or violation of any legal duty to the Company or a Subsidiary.
- (c) In the event of the Participant's death or total and permanent disability ("Disability"), the Participant (or in the case of death, the Participant's designated beneficiary) may continue to exercise the Stock Option, in whole or in part, until the earliest of:

- (i) the date specified in Paragraph 3(a); or
  - (ii) the date which is one (1) year following the Participant's death or Disability (as determined by the Committee).
- (d) In the event of the Participant's Retirement (as defined in this Paragraph 7(d)), the Participant may continue to exercise the Stock Option, to the extent then vested, in whole or in part, until the earlier of: (i) the expiration of the term of the Stock Option (as specified in Paragraph 3) or (ii) five (5) years after the Participant's Retirement date, but only if, and so long as, the Participant shall refrain from competing against the Company or any Subsidiary. "Retirement" shall, in all cases, be determined by the Committee, in its sole and absolute discretion, and shall mean the Participant's termination of employment with the Company and all Subsidiaries after reaching age sixty (60) with at least ten (10) years of service with the Company or a Subsidiary.

8. *Forfeiture and Disgorgement Upon Competition*

- (a) Notwithstanding any provisions in this Agreement to the contrary, in the event either (A) the Participant violates the provisions of Paragraph 8(b) or the provisions of any restrictive covenants agreement by and between the Company or its subsidiaries and the Participant or (B) the Participant or anyone acting on the Participant's behalf brings a claim against the Company seeking to declare any term of this Paragraph 8 void or unenforceable or the provisions of any other restrictive covenants agreement by and between the Company or its subsidiaries and the Participant void or unenforceable, then:
- (i) the Stock Option will immediately cease to vest and any portion of the Stock Option that has not previously vested as of the date of such violation shall be forfeited by the Participant to the Company;
  - (ii) the Participant will immediately sell to the Company all shares acquired by the Participant pursuant to the exercise of any portion of the Stock Option that vested within the last twelve (12) months and that Participant still owns on the date of such violation for the lesser of (a) the exercise price paid by the Participant for such Shares or (b) the Fair Market Value of such Shares on the date of sale to the Company;
  - (iii) the Participant will immediately pay to the Company any gain that the Participant realized on the sale of any Shares acquired pursuant to the exercise of the Stock Option and which vested within the last twelve (12) months; and
  - (iv) the Company shall be entitled to payment by the Participant of its attorneys' fees and costs incurred in enforcing the provisions of this Paragraph 8, in addition to any other legal remedies.
- (b) By execution of this Agreement, the Participant, either individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer or as a director or officer of any corporation or association, or in any other manner or capacity whatsoever, agrees to the



following from the date of grant until the date one (1) year immediately following his or her termination of employment (for any reason):

The Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) *Non-Competition*

Become employed by, advise, perform services or otherwise engage in any capacity with a Competing Business in the Restricted Area. For purposes of this Agreement, "Competing Business" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and the Participant's job duties are international in scope, the "Restricted Area" is worldwide. However, the Participant may own, directly or indirectly, solely as an investment, securities of any business traded on any national securities exchange or NASDAQ, provided that the Participant is not a controlling person of, or member of a group that controls such business, and provided further that the Participant does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business;

(ii) *Non-Solicitation*

Solicit business from, attempt to transact business with, or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (1) the Participant contacted, called on, serviced, conducted business with or had contact with during the Participant's employment or that the Participant attempted to contact, call on, service, or do business with during the Participant's employment; or (2) the Participant became acquainted with or dealt with, for any reason, as a result of the Participant's employment with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company; or

(iii) *Non-Recruitment*

Hire, solicit for employment, induce or encourage to leave the employment of the Company, any current employee of the Company or its subsidiaries or any former employee of the Company or its subsidiaries whose employment with the Company or its subsidiaries ceased less than three (3) months earlier.

(c) *Confidential Information*

Immediately upon the Participant's execution of this Agreement, and continuing on an ongoing basis during the Participant's employment, the Company agrees to provide the Participant with new Confidential Information (defined in this

Paragraph 8(c)) to which the Participant has not previously had access. For purposes of this Agreement, "Confidential Information" includes any trade secrets or confidential or proprietary information of the Company, including, but not limited to, the following:

- (i) Information concerning customers, clients, marketing, business and operational methods of the Company and their customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;
- (ii) Business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;
- (iii) Financial data, strategies, systems, research, plans, reports, recommendations and conclusions;
- (iv) Names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and
- (v) Any non-public matter or thing obtained or ascertained by the Participant through the Participant's association with the Company, the use or disclosure of which might reasonably be construed to be contrary to the best interests of the Company.

(d) *Non-Disclosure*

In exchange for the Company's promise to provide the Participant with Confidential Information, the Participant shall not, during the period of the Participant's employment or at any time thereafter, disclose to anyone, or publish, or use for any purpose, any Confidential Information, except as: (i) required in the ordinary course of the Company's business or the Participant's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of the Participant's employment for any reason, Participant shall immediately return and deliver to the Company any and all Confidential Information, computers, hard-drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in the Participant's possession, custody or control, whether prepared by the Participant or others. If at any time after termination of the Participant's employment, for any reason, the Participant determines that the Participant has any Confidential Information in the Participant's possession or control, the Participant shall immediately return to the Company all such Confidential Information in the Participant's possession or control, including all copies and portions thereof.

- (e) By execution of this Agreement, the Participant agrees that the provisions of this Paragraph 8 shall apply to all grants (including, without limitation, grants of incentive stock options, nonqualified stock options and restricted stock) made to the Participant pursuant to the Plan in 2006 and, to the extent the provisions of such grants are inconsistent with any of the provisions of this Paragraph 8, the Company and the Participant agree that (i) the provisions of this Paragraph 8 shall control and (ii) the provisions of any such award agreements are hereby amended by the terms of this Paragraph 8.
- (f) The provisions of Paragraph 8 shall survive the termination or expiration of this Agreement.

9. *Non-Transferability*

The Stock Option granted by this Agreement may only be exercisable during the term of the Option Period provided in Paragraph 3 hereof and, except as provided in Paragraph 7, only by the Participant during the Participant's lifetime. No Stock Option granted by this Agreement is transferable by the Participant other than by will or pursuant to applicable laws of descent and distribution. The Stock Option and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by operation of law, or otherwise, and is not otherwise subject to execution, attachment, garnishment or similar process. In the event of such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

10. *Adjustments in Number of Shares and Option Price; Change in Control*

Except as provided below, in the event that the outstanding Common Stock of the Company is increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional, new or different shares or securities are distributed with respect to the Common Stock through merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, stock dividend, stock split, reverse stock split or other distribution with respect to such Common Stock, each remaining share of Common Stock subject to this Stock Option will be substituted utilizing the principles set forth in Section 424(a) of the Code.

11. *Delivery of Shares*

No shares of Common Stock shall be delivered to the Participant upon the exercise of the Stock Option until:

- (a) the purchase price is paid in full in the manner herein provided, if applicable;
- (b) all of the applicable taxes required to be withheld have been paid or withheld in full;
- (c) the approval of any governmental authority required in connection with the Stock Option, or the issuance of shares thereunder, has been received by the Company; and
- (d) if required by the Committee, the Participant has delivered to the Committee an "Investment Letter" in form and content satisfactory to the Company as provided in Paragraph 12 hereof.

## 12. *Securities Act*

The Company will not be required to deliver any shares of Common Stock pursuant to the exercise of all or any part of the Stock Option if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the “Securities Act”) or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares pursuant to exercise of the Stock Option sign and deliver to the Company a written statement (“Investment Letter”):

- (a) stating that the Participant is purchasing the shares for investment and not with a view to the sale or distribution thereof;
- (b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:
  - (i) through a broker on a national securities exchange; or
  - (ii) with the prior written approval of the Company; and
- (c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

Such Investment Letter shall be in a form and content acceptable to the Committee, in its sole discretion.

## 13. *Federal and State Taxes*

- (a) Upon the exercise of the Stock Option, or any part thereof, the Participant may incur certain liabilities for federal, state or local taxes and the Company may be required by law to withhold such taxes for payment to taxing authorities. Upon a determination by the Company that an amount is required to be withheld in order to satisfy federal, state or local taxes, absent an election described in by the Participant to the contrary, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company’s withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.
- (b) Notwithstanding Paragraph 13(a) above, if the Participant elects, and the Committee agrees, the Company’s withholding obligations may instead be satisfied as follows:
  - (i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;
  - (ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant to satisfy the Company’s withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;

- (iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or
- (iv) any combination of the alternatives described in Paragraphs 13(b)(i) through 13(b)(iii) above.
- (c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 13(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the deliver of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

14. *Definitions; Copy of Plan*

Except as specifically provided otherwise herein, all capitalized terms used in this Agreement shall have the same meanings ascribed to them in the Plan. By the execution of this Agreement, the Participant acknowledges receipt of a copy of the Plan.

15. *Administration*

This Agreement is subject to the terms and conditions of the Plan. The Plan will be administered by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Plan and the decisions of the majority of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Participant and the Company. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

16. *Continuation of Employment*

This Agreement shall not be construed to confer upon the Participant any right to continued employment with the Company or a Subsidiary and shall not limit the right of the Company or a Subsidiary (as applicable), in its sole discretion, to terminate the employment of the Participant at any time.

17. *No Right to Stock*

No Participant and no beneficiary or other person claiming under or through such Participant shall have any right, title or interest in any shares of Common Stock allocated or reserved under the Plan or subject to this Stock Option, except as to such shares of Common Stock, if any, that have been issued or transferred to such Participant.

18. *Obligation to Exercise*

The Participant shall have no obligation to exercise any Stock Option granted by this Agreement.

19. *Notice*

Any notice to be given to the Company or the Committee shall be addressed to the Company in care of its Secretary at its principal office. Any such notice shall be in writing and shall be delivered personally or shall be sent by first class mail, postage prepaid, to the Company.

20. *Governing Law*

This Agreement shall be interpreted and administered under the laws of the State of Texas.

21. *Amendments*

This Agreement may be amended only by a written agreement executed by the Company and the Participant. Any such amendment shall be made only upon the mutual consent of the parties, which consent (of either party) may be withheld for any reason.

22. *Termination*

The Company may terminate the Plan at any time; however, such termination will not modify the terms and conditions of the Stock Option granted hereunder without the Participant's consent.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officers thereunto duly authorized, and the Participant has hereunto set his hand as of the day and year first above written.

FLOWSERVE CORPORATION

By: \_\_\_\_\_  
Lewis M. Kling  
President and Chief Executive Officer

PARTICIPANT

\_\_\_\_\_