SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

Commission file number 1-13179

FLOWSERVE CORPORATION

(Exact name of registrant as specified in its charter)

NEW YORK	31-0267900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

222 W. LAS COLINAS BOULEVARD SUITE 1500 IRVING, TEXAS	75039
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (972) 443-6500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $1.25 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the common stock held by non-affiliates of the registrant as of February 15, 2002 was approximately $1,166.4 million.

The number of shares outstanding of the registrant's common stock as of February 15, 2002: 45,277,715 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement dated March 18, 2002 are incorporated by reference into Part III of this Form 10-K.

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2001 are incorporated by reference into Parts I, II and IV of this Form 10-K.

PART I

ITEM 1. BUSINESS

Flowserve Corporation ("Flowserve") was incorporated in the State of New York on May 1, 1912. Except where otherwise indicated and unless the context otherwise requires, the terms "Flowserve," "Company," "we," "us," "our" and "our company" refer collectively to Flowserve Corporation and its subsidiaries.

We believe that we are the largest manufacturer and aftermarket service provider of comprehensive flow control systems throughout the world. Our Company develops and manufactures precision-engineered flow control equipment for critical service applications where high reliability is required. The flow control system components we produce include pumps, valves and mechanical seals. The Company's products and services are used in several industries, including petroleum, chemical, power generation and water treatment.

We conduct our operations through three segments that encompass our primary product types: (1) Pump Division, (2) Flow Solutions Division and (3) Flow Control Division. Our Pump Division supplies engineered pumps. Our Flow Control Division supplies valves and related products. Our Flow Solutions Division provides mechanical seals and aftermarket services. Through each of our segments, we provide aftermarket replacement parts.

PUMP DIVISION

Through our Pump Division, we design, manufacture and distribute engineered and industrial pumps and pump systems, replacement parts and related equipment principally to industrial markets. Pump's products and services are primarily used by companies that operate in the petroleum, chemical processing, power generating, water treatment and general industrial markets. We manufacture our pump systems and components at eight plants in the United States, one in Canada, three in Latin America, ten in Europe and one in Asia. We also manufacture a small portion of our pumps through several foreign joint ventures. We market our pump products, which are primarily sold to end users and engineering and construction companies, through our worldwide sales force, regional service and repair centers, independent distributors and sales representatives.

PUMP PRODUCTS

We manufacture more than 350 different pump models, of which approximately 60-70% are highly engineered and designed for customized applications. These high horsepower engineered pumps are manufactured with a wide range of metal alloys and in a variety of configurations including pumps that utilize seals (sealed) and pumps that do not (sealless).

The following is a summary list of Pump's general product types and globally recognized brands:

PRODUCT TYPES

Centrifugal Pumps
- Chemical Process ANSI and ISO
- Petroleum Process API 610
- Horizontal Between Bearing Single-stage
- Horizontal Between Bearing Multi-stage
- Vertical
- Submersible Motor
- Specialty
- Nuclear

Positive Displacement Pumps

- Reciprocating
- Gear
- Twin Screw

BRAND NAMES

- ACEC
- Aldrich
- Byron Jackson(R)
- Cameron
- Durco(R)
- Flowserve(R)
- Jeumont-Schneider
- Pacific
- Pleuger
- PolyChem
- Scienco
- Sier-Bath
- Simpson
- Stork
- United Centrifugal(R)
- Western Land Roller
- Wilson-Snyder(R)
- Worthington(R)

PUMP NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development have consistently led to producing longer lasting and more efficient pumps. The majority of our new products and enhancements are driven by our customers' needs to achieve higher throughput at lower costs. As a result, we continually work with our customers to develop better pump products to improve their operations.

PUMP CUSTOMERS

Pump sells its products to more than 1,000 customers including leading engineering and construction firms, original equipment manufacturers (OEM), distributors and end users. Pump sales are diversified across several industries including petroleum, power, chemical and water. Our sales mix of original equipment products and aftermarket replacement parts diversifies our business and mitigates somewhat the impact of an economic downturn on our business.

PUMP COMPETITION

The industry is highly fragmented with more than 500 competitors. We compete, however, primarily against a relatively limited number of large companies operating on a global scale. Competition is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Price competition for original equipment tends to be more intense than for aftermarket services.

The pump industry has undergone consolidation in recent years. The two primary causes for the consolidation trend are: (1) the need to lower costs through reduction of excess capacity in the market and (2) customers' preference to align with global full service suppliers and simplify their supplier base. Despite the consolidation activity, the market remains highly competitive.

PUMP BACKLOG

The Pump Division's backlog of orders at December 31, 2001 was $520.9 million, compared with $526.4 million at December 31, 2000. We believe that a high percentage of the current backlog will be shipped by December 31, 2002.

FLOW SOLUTIONS DIVISION

Through our Flow Solutions Division ("FSD"), we design, manufacture and distribute mechanical seals and sealing systems and provide parts, repair and services for flow control equipment used in process industries. Flow control products require mechanical seals to be replaced throughout the products' useful lives. The replacement of mechanical seals is an integral part of aftermarket services. Our mechanical seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, primarily in the petroleum, chemical processing, power generation, water treatment industries and general industrial end-markets. We manufacture mechanical seals through two plants in the United States, three in Europe and the Middle East, two in Latin America and three in Asia. Through FSD's global network of service and quick response centers, we provide service, repair and diagnostic services for maintaining flow control systems components.

Our mechanical seal products are primarily marketed through our sales force directly to end users. A portion of our mechanical seal products is sold directly to OEMs for incorporation into pumps, compressors, mixers or other rotating equipment requiring mechanical seals. Distributors and sales agents are also used in the sale of mechanical seals.

FSD PRODUCTS AND SERVICES

MECHANICAL SEALS. We design, manufacture and distribute approximately 180 different models of mechanical seals and sealing systems, of which approximately 65% are highly engineered and designed for customized applications. We believe our ability to turn around engineered new seal product orders within 72 hours from the customer's request, through design, engineering, manufacturing, testing and delivery, provides us with a competitive advantage. The mechanical seal is critical to the reliable operation of pumps, compressors and mixers for prevention of leakage and emissions of hazardous substances and the reduction of shaft wear caused by non-mechanical seals. We also manufacture a

gas-lubricated mechanical seal used in high-speed compressors for gas transmission and oil and gas production markets. We continually update our mechanical seals and sealing systems for new technologies.

The following is a summary list of FSD's general product types and globally recognized brands:

PRODUCT TYPES

- Cartridge
- Dry-Running
- Metal Bellow
- Elastomeric
- Split
- Gas Barrier

- Service and Repair
- Monitoring and Diagnostics

BRAND NAMES

- BW Seals(R)
- Durametallic(R)
- Five Star Seal(R)
- GASPAC(R)
- Pacific Wietz(TM)
- Pac-Seal(R)

SERVICE. We provide aftermarket services through our global network of approximately 150 service and quick response centers in 30 countries. Our service personnel provide a comprehensive set of equipment maintenance services for flow control systems, including repair, advanced diagnostics, installation, commissioning, re-rate and retrofit programs and full machining capabilities. A large portion of our service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

FSD NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development are focused on developing products that last longer and work more efficiently. Approximately 30% of our original equipment mechanical seal sales for 2001 were sales of products developed within the past five years. Our latest mechanical seal and seal system innovations include a double gas bellows seal, a high pressure compressor seal, a steam turbine gas seal, a modular cartridge seal platform, a modular mixer seal platform and a flushless heavy duty slurry seal, as well as numerous product upgrades and improvements.

FSD CUSTOMERS

Our mechanical seal products are sold to OEMs for incorporation into pumps, compressors, mixers or other rotating equipment requiring mechanical seals, and directly to end-users. FSD's mechanical seal sales are diversified among several industries, including petroleum, chemical, power generation and other industries. Our aftermarket services are provided to many of the same end-users that we serve for pump, valve and mechanical seal products.

We have established alliances with over 200 customers. These alliances provide significant benefits to us, as well as to our customers, by creating a more efficient supply chain through the reduction of procurement costs and increased communication with our customers. Our alliances enable us to provide products and services to our customers in a timely and cost-effective manner.

FSD COMPETITION

We compete against a number of manufacturers in the sale of mechanical seals. Our largest global mechanical seal competitor is John Crane, a unit of Smiths Group Plc.

In the service business, we often compete against the customers' in-house maintenance departments and locally owned and operated repair shops.

FSD BACKLOG

FSD's backlog of orders at December 31, 2001 was $73.8 million, compared with $69.4 million at December 31, 2000. We believe that virtually all of the current backlog will be shipped by December 31, 2002.

FLOW CONTROL DIVISION

Through our Flow Control Division ("FCD"), we design, manufacture and distribute manual valves, control valves, actuators and related equipment. FCD's valve products are an integral part of a flow control system and are used to control the flow of liquids and gases. Substantially all of FCD's valves are specialized and engineered to perform specific functions within a flow control system.

FCD's products are primarily used by companies that operate in the petroleum, chemical and power generation industries. We manufacture valves and actuators through four plants in the United States, six in Europe and three in other regions. We also manufacture a small portion of our valves through a foreign joint venture. Manual valve products and valve actuators are distributed through our sales force personnel and a network of distributors. Automatic control valves are marketed through sales engineers and service and repair centers or on a commission basis through sales representatives in our principal markets.

FCD PRODUCTS

We manufacture approximately 50 different valves, actuators and automated valve accessories, of which approximately 65% are highly engineered and designed for customized applications. Our valves are used in a wide variety of applications from general service to highly corrosive environments, as well as in environments experiencing extreme temperatures and/or pressures and applications requiring zero leakage. In addition to traditional valves, we also produce valves under the Valtek(R) brand that incorporate "smart" valve technologies. "Smart" valve technology packages integrate high technology sensors, microprocessor controls and digital positioners into a high performance control valve, which permits real time system analysis, system warnings and remote services. We were the first company to introduce "smart" valve technologies in response to demands for increased plant automation, more efficient process control and digital communications. We offer a growing line of digital products and are incorporating digital technologies into existing products to upgrade performance.

The following is a summary list of FCD's general product types and globally recognized brands:

PRODUCT TYPES

- Actuator Accessories
- Control Valves
- Digital Communications
- Manual Quarter-Turn Valves
- Valve Automation Systems
- Valve/Actuator Software
- Nuclear Valves
- Quarter-Turn Actuators

BRAND NAMES

- Accord(R)
- Anchor/Darling
- Atomac(TM)
- Automax(R)
- Battig
- Durco(R)
- Kammer(R)
- Sereg(TM)
- Valtek(R)

FCD NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development are focused on maintaining our technological leadership position and differentiating our product offering. When necessary, we invest in the redesign of existing products in an effort to improve their performance and continually meet customer needs. Our latest product innovations include the Logix digital positioner which enhances performance, speed and accuracy of pneumatic control valves and provides for quick calibration and setup; the BUSwitch which enables control and monitoring of automated on/off quarter-turn valves through FOUNDATION fieldbus technology; and the Mach 1 high performance plug valve for higher temperature and pressure applications in the chemical processing industry.

FCD CUSTOMERS

FCD's customer mix is diversified within several industries including chemical, petroleum, power and other industries. We sell a mix of original equipment and aftermarket parts.

FCD COMPETITION

Like the industrial pump market, the industrial valve market is highly fragmented and has undergone a significant amount of consolidation in recent years. Within the valves segment, we believe that the top ten domestic manufacturers generate less than 25% of domestic sales.

FCD BACKLOG

FCD's backlog of orders at December 31, 2001 was $68.0 million, compared with

$62.9 million at December 31, 2000. We believe that 85% to 90% of the current backlog will be shipped by December 31, 2002.

GENERAL BUSINESS

COMPETITION

The markets for the Company's products are highly competitive. Competition occurs on the basis of price, technical expertise, delivery, contractual terms, previous installation history and reputation for quality. Delivery speed and the proximity of service centers are important with respect to aftermarket products. Customers are generally more likely to rely on the Company than its competitors for the Company's aftermarket products relating to its more highly engineered and customized products than for its standard products. Price competition tends to be more significant for OEMs than aftermarket services and has been generally increasing. In the aftermarket portion of its service business, the Company competes against both large and well-established national or global competitors and, in some markets, against smaller regional and local companies, as well as the in-house maintenance departments of the Company's end-user customers. In the sale of aftermarket products and services, the Company benefits from the large installed base of pumps which require maintenance, repair and replacement parts.

In the petroleum industry, the competitors for aftermarket services tend to be the customers themselves because of their in-house capabilities. In other industries, except the nuclear power industry, the competitors for aftermarket services tend to be low cost replicators of spare parts and local independent repair shops for the Company's products. The Company has certain competitive advantages in the nuclear power industry because it maintains the N Stamp that is required to service customers in that industry and because the Company has a considerable base of proprietary knowledge.

Customers for the Company's products are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventory. Although vendor reduction programs could adversely affect the Company's business, the Company has been successful in entering into "alliance" arrangements with a number of customers both in the United States and overseas which provide competitive advantages to the Company.

RESEARCH AND DEVELOPMENT

The Company conducts research and development at its own facilities in various locations. In 2001, 2000 and 1999, the Company spent approximately $23.4 million, $24.8 million, and $25.6 million, respectively, on Company-sponsored research and development, primarily for new product development and extensions of existing products.

The Company's research and development group consists of engineers involved in new product development as well as the support and improvement of existing products. Additionally, the Company sponsors consortium programs for research with various universities and conducts limited development work jointly with certain of its vendors, licensees and customers. Management believes current expenditures are adequate to sustain ongoing research and development activities.

CUSTOMERS

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 2001 net sales.

RISKS OF INTERNATIONAL BUSINESS

In 2001, 43% of our sales originated outside the United States. Sales to foreign destinations, including U.S. export sales, were 48% of our sales in 2001, and included substantial business activity in the Middle East. Our activities thus are subject to the customary risks of operating in an international environment, such as unstable political situations, local laws, the potential imposition of trade restrictions or tariff increases and the relationship of the U.S. dollar to other currencies. The impact of these conditions is mitigated somewhat by the strength and diversity of the Company's product lines and geographic coverage. To minimize the impact of foreign exchange rate

movements on its operating results, the Company often enters into forward exchange contracts to hedge specific foreign currency denominated transactions. See Note 1 to consolidated financial statements on pages 36 to 39 of the 2001 Annual Report to Shareholders, which is incorporated by reference in this Form 10-K.

INTELLECTUAL PROPERTY

The Company owns a number of trademarks and patents relating to the name and design of its products. The Company considers its trademarks to be important to its business. The patents underlying much of the technology for the Company's products have been in the public domain for many years. Surviving patents are not considered, either individually or in the aggregate, to be material to the Company's business. However, the Company's pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of its products and their use, is considered particularly important and valuable. Accordingly, the Company protects such proprietary information. The Company, in general, is the owner of the rights to the products which it manufactures and sells, and the Company is not dependent in any material way upon any license or franchise to operate.

RAW MATERIALS

The principal raw materials we use in manufacturing our products are readily available. The main raw materials we use include bar stock and structural steel, castings, fasteners, gaskets, motors, silicon and carbon faces and Teflon(R). While substantially all raw materials are purchased from outside sources, we have been able to obtain an adequate supply of raw materials, and no shortage of such materials is currently anticipated. We intend to expand our use of worldwide sourcing to capitalize on low cost sources of purchased goods.

We are a vertically-integrated manufacturer of certain pump and valve products. Certain corrosion-resistant castings for Company pumps and quarter-turn valves are manufactured at our Dayton, Ohio foundries. Other metal castings are manufactured at our two other foundries or are purchased from outside sources.

We also produce most of our highly engineered corrosion resistant plastic parts for certain pump and valve product lines. This includes rotomolding as well as injection and compression molding of a variety of fluorocarbon and other plastic materials.

Suppliers of raw materials for nuclear markets must be qualified by the American Society of Mechanical Engineers and, accordingly, are limited in number. However, to date we have experienced no significant difficulty in obtaining such materials.

EMPLOYEES AND LABOR RELATIONS

We employ approximately 11,000 persons of whom approximately 50% work in the United States. Our hourly employees at our Vernon, California pump manufacturing plant, plus those at our valve manufacturing plant in Williamsport, Pennsylvania and at our foundry in Dayton, Ohio are represented by unions. Our operations in the following countries are unionized: Argentina, Austria, Belgium, Brazil, Canada, France, Germany, Italy, Mexico, The Netherlands, Spain and the United Kingdom. We believe employee relations throughout our operations are generally satisfactory, including those represented by unions.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

We are subject to environmental laws and regulations in all jurisdictions in which we have operating facilities. We periodically make capital expenditures for pollution abatement and control to meet environmental requirements.

At present, we have no plans for any material capital expenditures for environmental control facilities. However, we have experienced and continue to experience operating costs relating to environmental matters, although certain costs have been offset by our successful waste minimization programs. Based on information currently available, we believe that future environmental compliance expenditures will not have a material adverse effect on our financial position. We have established reserves which we believe to be adequate to cover potential environmental liabilities.

EXPORTS

Licenses are required from U.S. government agencies to export certain of the Company's products from the United States. In particular, products with nuclear applications are restricted, although limitations are placed on the export of certain other pump, valve and mechanical seal products.

The Company's export sales from the United States to foreign unaffiliated customers were $167.3 million in 2001, $148.1 million in 2000 and $142.7 million in 1999.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Annual Report on Form 10-K, and other written reports and oral statements made from time-to-time by the Company, contain various forward-looking statements and include assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: changes in the financial markets and the availability of capital; changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; the Company's ability to integrate past and future acquisitions into its management and operations; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical, water treatment, and power generation industries; economic conditions and the extent of economic growth in areas inside and outside the United States; unanticipated difficulties or costs associated with the implementation of systems, including software; the Company's ability to meet the financial covenants and other requirements of its financing agreements; repercussions from the terrorist attacks of September 11, 2001, and the response of the United States to those attacks; technological developments in the Company's products as compared to those of its competitors; changes in the prevailing interest rates and the effective interest cost which the Company bears; and adverse changes in the regulatory climate and other legal obligations imposed on Flowserve. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

ITEM 2. PROPERTIES

The Company's corporate headquarters is a leased facility in Irving, Texas encompassing approximately 49,000 square feet.

Information on the principal manufacturing facilities, by segment after giving effect to facility closings completed in 2001, is as follows:

	No. of Plants	Approx. Sq. Footage
PUMP		
Domestic:	8	1,129,900
International:	15	1,991,000
FLOW SOLUTIONS		
Domestic:	2	162,000
International:	8	286,400
FLOW CONTROL		
Domestic:	4	528,400
International:	9	389,850

Most of the Company's principal manufacturing facilities are owned; its leased facilities are subject to long-term lease agreements.

On the average, the Company utilizes approximately 55% to 75% of its manufacturing capacity, although there is a variation in usage rate among the facilities. The Company could, in general, increase its capacity through the purchase of new or additional manufacturing equipment without obtaining additional facilities.

We maintain a substantial network of domestic and foreign service centers and sales offices. Most of these facilities are leased.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business, none of which we believe to be material to the Company's financial condition. For further information about such litigation, see Note 11 of the Consolidated Financial Statements provided as part of Item 8 of this Form 10-K and incorporated herein by reference.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company (FLS) is traded on the New York Stock Exchange. On February 15, 2002, the Company's records showed approximately 1,800 shareholders of record. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 12,100 beneficial owners of its common stock. The company did not pay a dividend on its shares of common stock in 2001 and has no current plans to begin paying dividends.

PRICE RANGE OF FLOWSERVE COMMON STOCK
(INTRADAY HIGH/LOW PRICES)

	2001	2000
First Quarter	\$24.35/\$19.22	\$17.00/\$10.56
Second Quarter	\$33.30/\$20.76	\$17.69/\$12.00
Third Quarter	\$31.15/\$18.90	\$18.88/\$14.50
Fourth Quarter	\$27.02/\$18.70	\$23.50/\$16.13

During 2001, 2000 and 1999, the Company issued 27,700, 26,645 and 181,213 shares of restricted common stock, respectively, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of directors and certain officers and employees of the Company subject to restrictions on transfer.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 2001, which appears on page 61 of the 2001 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis appears on pages 23 through 31 of the 2001 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about market risk appears on page 30 of the Company's 2001 Annual Report to Shareholders under the heading "Market Risks Associated with Financial Instruments" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and accompanying notes appearing on pages 32 through 60 of the 2001 Annual Report to Shareholders, together with the reports thereon of PricewaterhouseCoopers LLP, dated February 5, 2002, and Ernst & Young LLP, dated February 10, 2000, except for Note 8 as to which date is July 14, 2000, appearing on page 22 of the 2001 Annual Report to Shareholders, and selected quarterly financial data appearing on page 60 of the 2001 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 18, 2002, (the "2002 Proxy Statement") is incorporated herein by reference. The executive officers of the Company, all positions and offices presently held by each person named, their ages as of February 15, 2002, and their business experience during the last five years are stated below. Executive officers serve at the discretion of the Board of Directors.

Name and Position	Age	Principal Occupation During Past Five Years
C. Scott Greer Chairman, President and CEO	51	President since July 1999, Chief Executive Officer since January 2000, and Chairman of the Board since April 2000; Chief Operating Officer from July to December 1999; President of UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components, from 1997 to 1999; President and a director of Echlin, Inc., an automotive parts supplier, from 1990 to 1997, and its Chief Operating Officer from 1994 to 1997.
Carlos Cardoso Vice President and President, Pump Division	43	Vice President and President, Pump Division since August 2001; Vice President and General Manager of the Engine Systems and Accessories Division of Honeywell International Inc. (formerly Allied Signal, Inc.) from 1999 to August 2001; Vice President and General Manager of Marketing, Sales and Services/Aerospace Services of Allied Signal, Inc from 1998 to 1999. Vice President of Operations for Aerospace Equipment Systems, a division of the Allied Signal Aerospace Sector from 1996 to 1998.
Mark D. Dailey Vice President, Supply Chain and Continuous Improvement	43	Vice President, Supply Chain and Continuous Improvement, since 1999; Vice President, Supply Chain and other supply chain management positions, from 1992 to 1999 for the North American Power Tools Division of The Black and Decker Company, a manufacturer of power tools, fastening and assembly systems and security hardware and plumbing products.

Name and Position	Age	Principal Occupation During Past Five Years
Renee J. Hornbaker Vice President and Chief Financial Officer	49	Vice President and Chief Financial Officer since December 1997; Vice President, Business Development and Chief Information Officer in 1997; Vice President, Finance and Chief Financial Officer of BW/IP, Inc. in 1997; Vice President, Business Development of BW/IP from 1996 to 1997.
Rory E. MacDowell Vice President and Chief Information Officer	51	Vice President and Chief Information Officer since 1998; Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to 1997.
Cheryl D. McNeal Vice President, Human Resources	51	Vice President, Human Resources since 1996.
George A. Shedlarski Vice President and President, Flow Solutions and Flow Control Divisions	57	President, Flow Solutions Division since January 1999 and President, Flow Control Division since August, 1999; President, Fluid Sealing Division from 1997 to January 1999; President, ServiceRepair Division in 1997; President, Rotating Equipment Group in 1997; Group Vice President, Industrial Products Group from 1994 to 1997.
Ronald F. Shuff Vice President, Secretary and General Counsel	49	Vice President since 1990 and Secretary and General Counsel since 1988.
Kathleen A. Giddings Vice President and Controller	39	Vice President and Controller since October 2000; Vice President and Controller of the Pump Division from 1997 to October 2000; and Controller from 1993 to 1997.
David F. Chavenson Vice President and Treasurer	49	Vice President and Treasurer since October 2001; Senior Vice President and Chief Financial Officer for Worldwide Flight Services, Inc. from 2000 to October 2001; Vice President, Finance and Chief Financial Officer of Rutherford - Moran Oil Corporation from 1996 to 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the 2002 Proxy Statement and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The information required by this Item 12 is set forth in the 2002 Proxy Statement and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is set forth to the extent applicable in the 2002 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements listed on the accompanying Index to Financial Statements and Financial Statement Schedule, on page F-1 hereof, are filed as part of this Form 10-K.

2. Financial Statement Schedule

The required financial statement schedule, together with the report thereon of PricewaterhouseCoopers LLP dated February 5, 2002, listed in the accompanying Index to Financial Statements and Financial Statement Schedule on page F-1 hereof, is filed as part of this Form 10-K.

3. Exhibits

The exhibits listed on the accompanying Index to Exhibits on pages 13 through 17 are filed as part of this Form 10-K.

(b) Reports on Form 8-K

None.

(c) See Item 14(a) 3 above.

(d) See Item 14(a) 2 above.

INDEX TO EXHIBITS*

EXHIBIT NUMBER	DESCRIPTION
2.1	Purchase Agreement by and among Flowserve Corporation, Flowserve RED Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company, dated as of February 9, 2000, was filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
2.2	Amendment No. 1, dated as of July 14, 2000, to the Purchase Agreement dated as of February 9, 2000, by and among Flowserve Corporation, Flowserve RED Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company, was filed as Exhibit 2.1 to the Company's report on Form 8-K, dated as of July 19, 2000.
2.3	Agreement and Plan of Merger among Flowserve Corporation, Forest Acquisition Sub., Inc. and Innovative Valve Technologies, Inc., dated as of November 18, 1999, was filed as Exhibit 99 (c)(1) to the Schedule 14 D-1 Tender Offer Statement and Statement on Schedule 13-D dated as of November 22, 1999.
3.1	1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
3.2	1989 Amendment to Certificate of Incorporation was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
3.3	By-Laws of The Duriron Company, Inc. (as restated) were filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.
3.4	1996 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
3.5	Amendment No. 1 to Restated Bylaws was filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

3.6 April 1997 Certificate of Amendment of Certificate of Incorporation was filed as part of Annex VI to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.

3.7 July 1997 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q, for the Quarter ended June 30, 1997.

4.1 Lease agreement and indenture, dated as of January 1, 1995 and bond purchase agreement dated January 27, 1995, in connection with an 8% Taxable Industrial Development Revenue Bond, City of Albuquerque, New Mexico. (Relates to a class of indebtedness that does not exceed 10% of the total assets of the Company. The Company will furnish a copy of the documents to the Commission upon request.)

4.2 Rights Agreement dated as of August 1, 1986 between the Company and BankOne, N.A., as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificate which was filed as Exhibit 1 to the Company's Registration Statement on Form 8-A on August 13, 1986.

4.3 Amendment dated August 1, 1996, to Rights Agreement was filed as Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

4.4 Amendment No. 2 dated as of June 1, 1998, to the Rights Agreement dated as of August 13, 1986, and amended as of August 1, 1996, was filed as Exhibit 1 to the Company's Form 8-A/A dated June 11, 1998.

4.5 Rate Swap Agreement in the amount of $25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.6 Rate Swap Agreement in the amount of $25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.7 Indenture dated as of August 8, 2000, between the Company, the guarantors identified therein and The Bank of New York, as trustee for $290,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2010, was filed as Exhibit 4.7 to the Form S-4 Registration Statement dated as of September 27, 2000.

4.8 Indenture dated as of August 8, 2000, between Flowserve Finance B.V., the guarantors identified therein and The Bank of New York, as Trustee for $100,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2010, was filed as Exhibit 4.8 to the Form S-4 Registration Statement dated as of September 27, 2000.

4.9 Dollar Notes Registration Rights Agreement dated August 3, 2000, among the Company, the Dollar Notes Guarantors, Credit Suisse First Boston, Bank of America Securities Inc, ABN AMRO Incorporated and Banc One Capital Markets, Inc., was filed as Exhibit 4.10 to the Form S-4 Registration Statement dated as of September 27, 2000.

4.10 Euro Notes Registration Rights Agreement dated August 3, 2000, among FFBV, the Euro Notes Guarantors, Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO International Limited and First Chicago Limited, was filed as Exhibit 4.11 to the Form S-4 Registration Statement, dated as of September 27, 2000.

10.1 Flowserve Corporation Incentive Compensation Plan for Senior Executives, as amended and restated effective October 1, 2000 was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000. **

10.2 Supplemental Pension Plan for Salaried Employees was filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.3 Flowserve Corporation Director Deferral Plan, as amended and restated effective October 1, 2000 was filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.4 First Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.5 Amendment No. 1 to the first Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.6 Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.7 Second Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.8 First Amendment to Second Master Benefit Trust Agreement was filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.9 Long-Term Incentive Plan, as amended and restated effective October 1, 2000 was filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.10 Flowserve Corporation 1989 Stock Option Plan as amended and restated effective January 1, 1997 was filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.11 Flowserve Corporation Second Amendment to the 1989 Stock Option Plan as previously amended and restated was filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.**

10.12 Amendment No. 3 to the Flowserve Corporation 1989 Stock Option Plan was filed as Exhibit 10.13 to the Company's Annual Report on Form

10-K for the year ended December 31, 2000.**

10.13 Flowserve Corporation 1989 Restricted Stock Plan (the "1989 Restricted Stock Plan") as amended and restated effective January 1, 1997 was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.14 Amendment No. 1 to the 1989 Restricted Stock Plan as amended and restated was filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.**

10.15 Amendment No. 2 to Flowserve Corporation 1989 Restricted Stock Plan was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.16 Flowserve Corporation 1989 Restricted Stock Dividend Plan, effective October 1, 2000 was filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.17 Flowserve Corporation Retirement Compensation Plan for Directors ("Director Retirement Plan") was filed as Exhibit 10.15 to the Company's Annual Report to Form 10-K for the year ended December 31, 1988.**

10.18 Amendment No. 1 to Director Retirement Plan was filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.19 The Company's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.**

10.20 Amendment # 1 dated December 15, 1992 to the Equalization Plan was filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**

10.21 Flowserve Corporation Executive Equity Incentive Plan as amended and restated effective July 21, 1999, was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.**

10.22 Flowserve Corporation Deferred Compensation Plan was filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.23 Executive Life Insurance Plan of Flowserve Corporation was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.24 Executive Long-Term Disability Plan of The Duriron Company, Inc. was filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.25 Flowserve Corporation 1997 Stock Option Plan was included as Exhibit A to the Company's 1997 Proxy Statement which was filed on March 17, 1997.**

10.26 First Amendment to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.28 to the Company's Quarterly Report on Form

10-Q for the quarter ended June 30, 1998. **

10.27 Amendment No. 2 to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999..**

10.28 Amendment No. 3 to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.29 Flowserve Corporation 1999 Stock Option Plan was included as Exhibit A to the Company's 1999 Proxy Statement which was filed on March 15, 1999.**

10.30 Amendment No. 1 to the Flowserve Corporation 1999 Stock Option Plan was filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.**

10.31 Amendment No. 2 to the Flowserve Corporation 1999 Stock Option Plan was filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.32 BW/IP International, Inc. Supplemental Executive Retirement Plan as amended and restated was filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter entered March 31, 1998.**

10.33 Flowserve Corporation 1998 Restricted Stock Plan was included as Exhibit A to the Company's 1999 Proxy Statement which was filed on April 9, 1998 .**

10.34 Amendment No. 1 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.**

10.35 Amendment No. 2 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.**

10.36 Amendment No. 3 to Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.37 Amendment No. 4 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.

10.38 Flowserve Corporation 1998 Restricted Stock Dividend Plan (effective October 1, 2000) was filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.39 Employment Agreement, effective July 1, 1999, between the Company and C. Scott Greer was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999. **

10.40 Loan Agreement between the Company and C. Scott Greer was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.**

10.41	Credit Agreement among the Registrant, certain of its subsidiaries referred to therein, the lenders referred therein, Credit Suisse First Boston, New York branch, a syndication agent, Bank of America, N.A., as administrative agent, collateral agent and swingline lender, and ABN AMRO Bank N.V., Bank One, N.A. and Salomon Smith Barney, Inc., as co-documentation agents, dated August 8, 2000 ("2000 Credit Agreement"), was filed as Exhibit 10.45 to the Form S-4 Registration Statement dated as of September 27, 2000.
10.42	Security Agreement among the Registrant, certain of its subsidiaries referred to therein and Bank of America, N.A. dated as of August 8, 2000, was filed as Exhibit 10.46 to the Form S-8 Registration Statement dated as of September 27, 2000.
10.43	First Amendment to the 2000 Credit Agreement dated November 9, 2001 (filed herewith).
10.44	Amendment to Master Benefit Trust Agreement was filed as Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.45	Executive severance arrangement (filed herewith).**
13.1	2001 Annual Report to Shareholders (filed herewith as part of this report to the extent incorporated herein by reference).
21.1	Subsidiaries of the Company (filed herewith).
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith).
23.2	Consent of Ernst & Young LLP (filed herewith).

"*" For exhibits of the Company incorporated by reference into this Annual Report on Form 10-K from a previous filing with the Commission, the Company's file number with the Commission since July 1997 is "1-13179" and the previous file number was "0-325."

"**" Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on this 21st day of February 2002.

FLOWSERVE CORPORATION
(Registrant)

By: /s/ C. Scott Greer

C. Scott Greer
Chairman, President and Chief

Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ C. Scott Greer C. Scott Greer	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 21, 2002
/s/ Renee J. Hornbaker Renee J. Hornbaker	Vice President and Chief Financial Officer (Principal Financial Officer)	February 21, 2002
/s/ Kathleen A. Giddings Kathleen A. Giddings	Vice President and Controller (Principal Accounting Officer)	February 21, 2002
/s/ Diane C. Harris Diane C. Harris	Director, Chairman of Audit/Finance Committee	February 21, 2002
/s/ William C. Rusnack William C. Rusnack	Director, Member Audit/Finance Committee	February 21, 2002
/s/ Charles M. Rampacek Charles M. Rampacek	Director, Member Audit/Finance Committee	February 21, 2002
/s/ James O. Rollans James O. Rollans	Director, Member Audit/Finance Committee	February 21, 2002

FLOWSERVE CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
Item 14(a)(1) and (2)

Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
of Flowserve Corporation:

Our audits of the consolidated financial statements referred to in our report dated February 5, 2002 appearing in the 2001 Annual Report to Shareholders of Flowserve Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K as of December 31, 2001 and 2000 and for each of the two years then ended. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statement schedule of the Company as of December 31, 1999 and for the year then ended was audited by other independent auditors whose report dated February 10, 2000 expressed an unqualified opinion on the financial statement schedule.

/s/PricewaterhouseCoopers LLP
Dallas, Texas
February 5, 2002

FLOWSERVE CORPORATION
Schedule II - Valuation and Qualifying Accounts
(dollars in thousands)

Column A	Column B	Column C	Column D	Column E	Column F
	Balance at beginning of year	Additions charged to earnings	Deductions from reserve	Acquisitions and related adjustments	Balance at end of year
Description					
Year ended December 31, 2001:					
Allowance for doubtful accounts (a):	$ 18,481	$ 4,556	$ 4,324	$ 2,087	$ 20,800
Year ended December 31, 2000:					
Allowance for doubtful accounts (a):	$ 5,705	$ 2,782	$ 1,392	$ 11,386	$ 18,481
Year ended December 31, 1999:					
Allowance for doubtful accounts (a):	$ 4,533	$ 2,214	$ 1,042	$ --	$ 5,705
Year ended December 31, 2001:					
Inventory reserves (b):	$ 37,114	$ 4,949	$ 5,025	$ 5,948	$ 42,986
Year ended December 31, 2000:					
Inventory reserves (b):	$ 18,935	$ 6,066	$ 5,082	$ 17,195	$ 37,114
Year ended December 31, 1999:					
Inventory reserves (b):	$ 16,051	$ 5,254	$ 2,370	$ --	$ 18,935

(a) Deductions from reserve represent accounts written off net of recoveries.

(b) Deductions from reserve represent inventory written off.

EXHIBIT 10.43

FLOWSERVE CORPORATION
FIRST AMENDMENT
TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of November 9, 2001 and entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the Lenders (as defined in Article I of the Credit Agreement) executing this Agreement, Credit Suisse First Boston, a bank organized under the laws of Switzerland, acting through its New York branch ("CSFB"), as syndication agent (the "Syndication Agent") and Bank of America, N.A., a national banking association ("BofA"), as swingline lender (in such capacity, the "Swingline Lender"), as administrative agent (in such capacity, the "Administrative Agent") and as collateral agent (in such capacity, the "Collateral Agent") for the Lenders, and is made with reference to that certain Credit Agreement dated as of August 8, 2000 (the "Credit Agreement"), by and among the Borrower, the Lenders, the Syndication Agent and the Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, the Borrower and the Lenders desire to amend the Credit Agreement in certain respects;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 AMENDMENTS TO ARTICLE I: DEFINITIONS

A. Section 1.1 of the Credit Agreement is hereby amended by adding thereto the following definition, which shall be inserted in proper alphabetical order:

> "Fall 2001 Equity Issuance" means a public offering of the Borrower's common stock made by the Borrower on or before December 31, 2001 resulting in gross cash proceeds of at least $150,000,000.

B. The definition of "Consolidated Interest Expense" is hereby amended by adding the following parenthetical phrase immediately after the phrase "premium payments" in the third line:

> "(other than premium payments associated with the repurchase or prepayment of the Subordinated Notes from proceeds of the Fall 2001 Equity Issuance)".

C. The definition of "Excess Cash Flow" is hereby amended by adding the following phrase at the end of the parenthetical phrase in clause (b)(iv) thereof:

> "and other than repurchases or prepayments of the Subordinated Notes out of proceeds of the Fall 2001 Equity Issuance".

1.2 AMENDMENTS TO ARTICLE II: THE CREDITS

A. Section 2.13(b) of the Credit Agreement is hereby amended by deleting the word "fifth" in the first line and substituting in lieu thereof the word "tenth".

B. Section 2.13 of the Credit Agreement is hereby further amended by deleting clause (c) in its entirety and substituting in lieu thereof the following:

> "(c) Subject to paragraph (j) below, in the event and on each occasion that an Equity Issuance occurs, the Borrower shall, substantially simultaneously with (and in any event not later than the fifth Business Day next following) the occurrence of each Equity Issuance, apply 75% of the Net Cash Proceeds therefrom to prepay outstanding Term Loans in accordance with Section 2.13(g); provided, however, that in the event the Leverage Ratio on the date of such Equity Issuance (and after giving effect thereto and to the use of the proceeds thereof) is less than 3.0 to 1.0, such amount shall be reduced to 50%; provided further that with respect to the Fall 2001 Equity Issuance, (i) the Borrower may apply the Net Cash Proceeds therefrom to repurchase Subordinated Notes and/or to prepay principal of, interest on and premium, if any, on the Subordinated Notes, up to an aggregate amount equal to the sum of (x) the maximum principal amount of Subordinated Notes that may be repurchased or prepaid pursuant to the optional redemption provisions of the Subordinated Note Indentures, and (y) the 12.25% prepayment premium associated therewith (plus the amount of accrued interest on the principal amount so repurchased or prepaid), and (ii) 100% of any Net Cash Proceeds therefrom in excess of the amount so applied to repurchase and/or prepay the Subordinated Notes shall be applied to prepay outstanding Term Loans in accordance with Section 2.13(g)."

C. Section 2.23(c) of the Credit Agreement is hereby amended by deleting the number "180" in the second line and substituting in lieu thereof the number "360".

D. Section 2.23(c) of the Credit Agreement is hereby further amended by deleting the amount "$20,000,000" in clause (i) thereof and inserting in lieu thereof the amount "$40,000,000".

1.3 AMENDMENTS TO ARTICLE VI: NEGATIVE COVENANTS

A. Section 6.05(b) of the Credit Agreement is hereby amended by adding the following proviso at the end of such section:

> "provided that the limitations set forth in this clause (iii) shall not apply to the non-recourse factoring of accounts receivable by Foreign Subsidiaries, provided that the aggregate outstanding amount of accounts receivable (assuming each such account receivable remains

> outstanding for the number of days provided in the applicable invoice for non-delinquent payment) at any time which have been so factored shall not exceed $25,000,000."

B. Section 6.09(b) of the Credit Agreement is hereby amended by adding the following proviso at the end of such section:

> "provided that the Borrower may repurchase and/or prepay the Subordinated Notes to the extent provided in the final proviso of Section 2.13(c)."

SECTION 2. CONDITIONS TO EFFECTIVENESS

2.1 AMENDMENT OTHER THAN SECTION 1. This Amendment (other than Section 1 of this Amendment) shall become effective upon receipt by the Administrative Agent on or before November 16, 2001 of all of the following, in form and substance satisfactory to the Administrative Agent:

A. AMENDMENT. This Amendment executed by the Borrower, the Agents and the Required Lenders;

B. PAYMENT OF AMENDMENT FEE. Evidence of payment to the Administrative Agent for the account of each Lender that executes this Amendment on or before November 9, 2001 of an amendment fee equal to 0.125% of the sum of such Lender's Revolving Credit Commitment and the principal amount Term Loans held by such Lender.

C. PAYMENT OF FEES. Evidence of payment by the Borrower of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the date hereof, together with attorney costs of BofA to the extent invoiced prior to date hereof.

D. BORROWER CERTIFICATE. A certificate signed by a Responsible Officer of the Borrower, dated as of the date hereof, stating that:

(i) the representations and warranties contained in Section 3 hereof and in Article III of the Credit Agreement are true and correct on and as of such date, as though made on and as of such date; and

(ii) no Default or Event of Default exists and no Default or Event of Default existed as of September 30, 2001.

2.2 EFFECTIVENESS OF SECTION 1. Section 1 of this Amendment shall become effective upon satisfaction of the conditions set forth in Section 2.1 and receipt by the Administrative Agent on or before December 31, 2001 of all of the following, in form and substance satisfactory to the Administrative Agent, it being understood and agreed that if such conditions are not satisfied on

or prior to December 31, 2001, Section 1 of this Amendment shall not be effective (the date of satisfaction of such conditions being referred to herein as the "First Amendment Effective Date"):

A. EVIDENCE OF FALL 2001 EQUITY ISSUANCE AND REDUCTION OF INDEBTEDNESS. Evidence satisfactory to the Administrative Agent that (i) the Fall 2001 Equity Issuance has been consummated and that the Borrower has received the Net Cash Proceeds thereof, and (ii) such Net Cash Proceeds have been applied in the manner set forth in the final proviso of Section 2.13(c).

B. PAYMENT OF FEES. Evidence of payment by the Borrower of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the First Amendment Effective Date, together with attorney costs of BofA to the extent invoiced prior to or on the First Amendment Effective Date.

C. BORROWER CERTIFICATE. A certificate signed by a Responsible Officer of the Borrower, dated as of the First Amendment Effective Date, stating that:

(iii) the representations and warranties contained in Section 3 hereof and in Article III of the Credit Agreement are true and correct on and as of such date, as though made on and as of such date; and

(iv) no Default or Event of Default exists.

SECTION 3. BORROWER'S REPRESENTATIONS AND WARRANTIES

In order to induce the Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, the Borrower represents and warrants to each Lender that the following statements are true, correct and complete:

A. DUE INCORPORATION, VALID EXISTENCE AND GOOD STANDING; CORPORATE POWER AND AUTHORITY. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York. The Borrower has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "Amended Agreement").

B. AUTHORIZATION OF AGREEMENTS. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of the Borrower.

C. NO CONFLICT. The execution and delivery by the Borrower of this Amendment and the performance by the Borrower of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to the Borrower or any of its Subsidiaries, the certificate or articles of incorporation or by-laws of the Borrower or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on the Borrower or any of its Subsidiaries, (ii) conflict with, result in a

breach of or constitute (with due notice or lapse of time or both) a default under any contractual obligation, agreement or other instrument of the Borrower or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of the Borrower or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or any approval or consent of any person under any contractual obligation, agreement or other instrument of the Borrower or any of its Subsidiaries.

D. GOVERNMENTAL CONSENTS. The execution and delivery by the Borrower of this Amendment and the performance by the Borrower of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. BINDING OBLIGATION. This Amendment has been duly executed and delivered by the Borrower and this Amendment and the Amended Agreement are the legally valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. ABSENCE OF DEFAULT. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Default.

SECTION 4. MISCELLANEOUS

A. REFERENCE TO AND EFFECT ON THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. FEES AND EXPENSES. The Borrower acknowledges that all costs, fees and expenses as described in the Credit Agreement incurred by the Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of the Borrower.

C. HEADINGS. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. APPLICABLE LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

FLOWSERVE CORPORATION,

By

/s/ Dave Chavenson

Name: Dave Chavenson
Title: Vice President and Treasurer

BANK OF AMERICA, N.A., individually and as Administrative Agent, Collateral Agent and Swingline Lender

By /s/ Dan Killian

Name: Dan M. Killian
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

CREDIT SUISSE FIRST BOSTON, individually and as Syndication Agent,

By /s/ William S. Lutkins

Name: William S. Lutkins
Title: Vice President

By /s/ David M. Koczan

Name: David M. Koczan
Title: Associate

(Flowserve Corporation First Amendment to Credit Agreement)

ABN AMRO BANK N.V.,

By /s/ Mary L. Honda

Name: Mary L. Honda
Title: Group Vice President

By /s/ Wendy E. Pace

Name: Wendy E. Pace
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

BANK ONE, NA,

By

/s/ Kathy Turner

Name: Kathy Turner
Title: Director

(Flowserve Corporation First Amendment to Credit Agreement)

BANK OF CHINA, LOS ANGELES BRANCH,

By

/s/ Liu, Haiping

Name: Liu, Haiping
Title: Branch Manager

(Flowserve Corporation First Amendment to Credit Agreement)

BANK OF MONTREAL

By

/s/ S. Valia

Name: S. Valia
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

THE BANK OF TOKYO-MITSUBISHI, LTD.,

By

/s/ Doug Barnell

Name: D. Barnell
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

CITICORP USA INC.

By

/s/ F. Rockwell Lowe

Name: F. Rockwell Lowe
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

COMERICA BANK,

By /s/ T. Bancroft Mattei

Name: T. Bancroft Mattei
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

THE DAI ICHI KANGYO BANK, LIMITED

By /s/ Tsutomu Yamamoto

Name: Tsutomu Yamamoto
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

HSBC BANK USA,

By /s/ James McClintock

Name: James McClintock
Title: First Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

LLOYDS TSB BANK PLC,

By /s/ Ian Dimmock

Name: Ian Dimmock
Title: Vice President Acquisition Finance D080

By /s/ Peter Hart

Name: Peter Hart
Title: Assistant Director Structured Finance H002

(Flowserve Corporation First Amendment to Credit Agreement)

NATEXIS BANQUES POPULAIRES,

By /s/ Timothy L. Polvado

Name: Timothy L. Polvado
Title: Vice President and Group Manager

By /s/ Renaud J. d'Herbes

Name: Renaud J. d'Herbes
Title: Senior Vice President and Regional Manager

NATIONAL WESTMINSTER BANK PLC

By: NatWest Capital Markets Limited, its Agent

By: Greenwich Capital Markets, Inc. its Agent

By /s/ Harry Paschalidis

Name: Harry Paschalidis
Title: Assistant Vice President

ORIX FINANCIAL SERVICES, INC.

By /s/ Michael J. Cox

Name: Michael J. Cox
Title: Senior Vice President

THE SUMITOMO TRUST & BANKING CO., LTD., NEW YORK BRANCH,

By /s/ Elizabeth A. Quiric

Name: Elizabeth A. Quiric
Title: Vice-President

TORONTO DOMINION (NEW YORK), INC.,

By

/s/ Dana Schwalie

Name: Dana Schwalie

Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

LANDMARK CDO LIMITED,

By: Aladdin Asset Management LLC
as Manager

By

/s/ Joseph A. Moroney

Name: Joseph A. Moroney

Title: Vice President
Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AIMCO CDO SERIES 2000-A

By

/s/ unable to read signature

Name: ______________________________

Title: ______________________________

By

/s/ unable to read signature

Name: ______________________________

Title: ______________________________

(Flowserve Corporation First Amendment to Credit Agreement)

ALLSTATE LIFE INSURANCE COMPANY

By

/s/ unable to read signature

Name: ______________________________

Title: ______________________________

By

/s/ unable to read signature

Name:

Title:

(Flowserve Corporation First Amendment to Credit Agreement)

KZH STERLING LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

AMMC CDO II, LIMITED,

By: American Money Management Corp., as Collateral Manager

/s/ David P. Meyer

Name: David P. Meyer
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

ARES LEVERAGED INVESTMENT FUND II, L.P.

By: ARES Management II, L.P.
Its: General Partner

/s/ David A. Sachs

Name: David A. Sachs
Title: Vice President

ARES III CLO LTD.

By: ARES CLO Management, LLC
Its: Investment Manager

/s/ David A. Sachs

Name: David A. Sachs
Title: Vice President

ARES IV CLO LTD.

By: ARES CLO Management IV, L.P.
Investment Manager

By: Ares CLO GP IV, LLC
Its: Managing Member

/s/ David A. Sachs

Name: David A. Sachs
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

CARAVELLE INVESTMENT FUND II, L.L.C.
By Trimaran Advisors, L.L.C.

/s/ Dean T. Criares

Name: Dean T. Criares
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

CARLYLE-HIGH YIELD PARTNERS II, LTD

By
/s/ Linda M. Pace

Name: Linda M. Pace
Title: Vice President

CARLYLE-HIGH YIELD PARTNERS III, LTD

By
/s/ Linda M. Pace

Name: Linda M. Pace
Title: Vice President

CARLYLE-HIGH YIELD PARTNERS, LP

By
/s/ Linda M. Pace

Name: Linda M. Pace
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

CENTURION CDO II, LTD

By: American Express Asset Management
Group Inc, as Collateral Manager

/s/ Michael M. Leyland

Name: Michael M. Leyland
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

CONTINENTAL CASUALTY COMPANY,

By

/s/ Marilou R. McGirr

Name: Marilou R. McGirr
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

PROMETHEUS INVESTMENT FUNDING NO. 1, CPF
ASSET ADVISORY, LLC AS INVESTMENT MANAGER

By

/s/ Elizabeth H. Tallmadge

Name: Elizabeth H. Tallmadge
Title: Managing Director
Chief Investment Officer

By

/s/ Steven Simons

Name: Steven Simons
Title: Associate Director

(Flowserve Corporation First Amendment to Credit Agreement)

CYPRESSTREE INVESTMENT PARTNERS I, LTD,

By: CypressTree Investment Management
Company, Inc., as Portfolio Manager

/s/ Peter Campo

Name: Peter Campo
Title: Investment Analyst

CYPRESSTREE INVESTMENT PARTNERS II, LTD,

By: CypressTree Investment Management
Company, Inc., as Portfolio Manager

By

/s/ Peter Campo

Name: Peter Campo

Title: Investment Analyst

CYPRESSTREE INVESTMENT MANAGEMENT COMPANY, INC.

As: Attorney-in-Fact and on behalf of First Allmerica Financial Life Insurance Company as Portfolio Manager

By

/s/ Peter Campo

Name: Peter Campo

Title: Investment Analyst

GRAYSON & CO,

By: BOSTON MANAGEMENT AND RESEARCH, as Investment Advisor,

By

/s/ Scott H. Page

Name: Scott H. Page

Title: Vice President

SENIOR DEBT PORTFOLIO,

By: BOSTON MANAGEMENT AND RESEARCH, as Investment Advisor,

By

/s/ Scott H. Page

Name: Scott H. Page

Title: Vice President

EATON VANCE CDO II, LTD,

By: EATON VANCE MANAGEMENT, AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page

Title: Vice President

EATON VANCE CDO III, LTD,

By: EATON VANCE MANAGEMENT, AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

EATON VANCE CDO IV, LTD,

By: EATON VANCE MANAGEMENT,
AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

CONSTANITINUS EATON VANCE CDO V, LTD.,

By: EATON VANCE MANAGEMENT,
AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

EATON VANCE INSTITUTIONAL SENIOR LOAN FUND,

By: EATON VANCE MANAGEMENT,
AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

OXFORD STRATEGIC INCOME FUND,

By: EATON VANCE MANAGEMENT,
AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

EATON VANCE SENIOR INCOME TRUST,

By: EATON VANCE MANAGEMENT,
AS INVESTMENT ADVISOR,

By

/s/ Scott H. Page

Name: Scott H. Page
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

FC CBO II, LIMITED

By

/s/ Mike McCarthy

Name: Mike McCarthy
Title: Manager

(Flowserve Corporation First Amendment to Credit Agreement)

FLAGSHIP CLO-2001-1,

By

/s/ Mark S. Pelletier

Name: Mark S. Pelletier
Title: Director

(Flowserve Corporation First Amendment to Credit Agreement)

FREMONT INVESTMENT & LOAN,

By

/s/ Maria Chachere

Name: Maria Chachere
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

GOLDMAN SACHS CREDIT PARTNERS L.P.

By

/s/ Robert S. Fanelli

Name: Robert S. Fanelli
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

GRAYSTON CLO 2001-01 LTD.

By: Bear Stearns Asset Management Inc.
as its Collateral Manager

By

/s/ Niell D. Rosenberg

Name: Niell D. Rosenberg
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

HARCH CLO I LIMITED,

By

/s/ Michael E. Hewitt

Name: Michael E. Hewitt
Title:

(Flowserve Corporation First Amendment to Credit Agreement)

INDOUEZ CAPITAL FUNDING IV, L.P.

By: Indosuez Capital as Portfolio Advisor

By

/s/ Jack C. Henry

Name: Jack C. Henry
Title: Vice President and Portfolio Manager

INDOUEZ CAPITAL FUNDING VI, LIMITED

By: Indosuez Capital as Collateral Manager

By

/s/ Jack C. Henry

Name: Jack C. Henry
Title: Vice President and Portfolio Manager

(Flowserve Corporation First Amendment to Credit Agreement)

ARCHIMEDES FUNDING III, LTD.

By: ING Capital Advisors LLC,
as Collateral Manager

By

/s/ Greg M. Masuda

Name: Greg M. Masuda

Title: Vice President

ARCHIMEDES FUNDING IV (CAYMAN), LTD.

By: ING Capital Advisors LLC,
as Collateral Manager

By

/s/ Greg M. Masuda

Name: Greg M. Masuda

Title: Vice President

THE ING CAPITAL SENIOR SECURED HIGH INCOME HOLDINGS FUND, LTD.

By: ING Capital Advisors LLC,
as Investment Manager

By

/s/ Greg M. Masuda

Name: Greg M. Masuda

Title: Vice President

SEQUILS-ING I (HBDGM), LTD.

By: ING Capital Advisors LLC,
as Collateral Manager

By

/s/ Greg M. Masuda

Name: Greg M. Masuda

Title: Vice President

SWISS LIFE US RAINBOW LIMITED

By: ING Capital Advisors LLC,
as Collateral Manager

By

/s/ Greg M. Masuda

Name: Greg M. Masuda

Title: Vice President

INVESCO CBO 2000-1 LTD.

By: INVESCO Senior Secured Management, Inc.
As Portfolio Advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AERIES FINANCE-II LTD.

By: INVESCO Senior Secured Management, Inc.
As Sub-Managing Agent

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AMARA 2 FINANCE, LTD.

By: INVESCO Senior Secured Management, Inc.
As Sub-Advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AMARA-1 FINANCE, LTD. LTD.

By: INVESCO Senior Secured Management, Inc.
As Sub-advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AVALON CAPITAL LTD.

By: INVESCO Senior Secured Management, Inc.
As Portfolio Advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AVALON CAPITAL LTD. 2

By: INVESCO Senior Secured Management, Inc.
As Portfolio Advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

CERES II FINANCE LTD.

By: INVESCO Senior Secured Management, Inc.
As Sub-Manging Agent (Financial)

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

CHARTER VIEW PORTFOLIO

By: INVESCO Senior Secured Management, Inc.
As Investment Advisor

By

/s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

AIM FLOATING RATE FUND

By: INVESCO Senior Secured Management, Inc.
As Attorney in fact

By /s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

OASIS COLLATERALIZED HIGH INCOME PORTFOLIO-1, LTD.

By: INVESCO Senior Secured Management, Inc.
As Subadvisor

By /s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

SEQUILS LIBERTY, LTD.

By: INVESCO Senior Secured Management, Inc.
As Collateral Manager

By /s/ Gregory Stoeekle

Name: Gregory Stoeekle
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

JUPITER FUNDING TRUST,

By /s/ Ann E. Morris

Name: Ann E. Morris
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

KATONAH I, LTD.,

By

/s/ Ralph Della Rocca

Name: Ralph Della Rocca
Title: Authorized Officer

KATONAH II, LTD.,

By

/s/ Ralph Della Rocca

Name: Ralph Della Rocca
Title: Authorized Officer

KZH CNC LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

KZH CYPRESSTREE-1 LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

MAGNETITE ASSET INVESTORS III, L.L.C,

By

/s/ M. Williams

Name: M. Williams
Title: Director

MAGNETITE ASSET INVESTORS, L.L.C,

By

/s/ M. Williams

Name: M. Williams
Title: Director

MONY LIFE INSURANCE COMPANY,

By /s/ Suzanne E. Walton

Name: Suzanne E. Walton
Title: Managing Director

MONY LIFE INSURANCE COMPANY
OF AMERICA,

By /s/ Suzanne E. Walton

Name: Suzanne E. Walton
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

MORGAN STANLEY PRIME TRUST,

By /s/ Peter Gewirtz

Name: Peter Gewirtz
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

MUIRFIELD TRADING LLC,

By /s/ Ann E. Morris

Name: Ann E. Morris
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

OAK HILL CREDIT PARTNERS I, LIMITED,

BY OAK HILL CLO MANAGEMENT I, LLC
AS INVESTMENT MANAGER

By /s/ Scott D. Krase

Name: Scott D. Krase
Title: Authorized Signatory

(Flowserve Corporation First Amendment to Credit Agreement)

OLYMPIC FUNDING TRUST, SERIES 1999-1,

By /s/ Ann E. Morris

Name: Ann E. Morris
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

SENIOR FLOATING RATE FUND,

By /s/ David Foxhoven

Name: David Foxhoven
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

PPM SPYGLASS FUNDING TRUST,

By /s/ Ann E. Morris

Name: Ann E. Morris
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

PVT DIVERSIFIED INCOME,

By /s/ John R. Verani

Name: John R. Verani
Title: Vice President

PUTNAM HIGH YIELD TRUST,

By /s/ John R. Verani

Name: John R. Verani
Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

RIVIERA FUNDING LLC,

By

/s/ Ann E. Morris

Name: Ann E. Morris
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

SAWGRASS TRADING LLC,

By

/s/ Ann E. Morris

Name: Ann E. Morris
Title: Assistant Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

SCUDDER FLOATING RATE FUND,

By

/s/ Kenneth Weber

Name: Kenneth Weber
Title: Senior Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

KZH RIVERSIDE LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

SEABOARD CLO 2000 LTD.

BY ORIX CAPITAL MARKETS, LLC
ITS COLLATERAL MANAGER

/s/ Sheppard H.C. Davis, Jr.

Name: Sheppard H.C. Davis, Jr.
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

SEQUILS-CENTURION V, LTD

By American Express Asset Manager
Group Inc, as Collateral Manager

/s/ Michael M. Leyland

Name: Michael M. Leyland
Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

SEQUILS-CUMBERLAND I, LTD.,

By: Deerfield Management LLC,
as its Collateral Manager,

/s/ Dale Burrow

Name: Dale Burrow
Title: Senior Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

SIERRA CLO I, LTD.,

By

/s/ unable to read signature

Name:

Title:

(Flowserve Corporation First Amendment to Credit Agreement)

LIBERTY-STEIN ROE ADVISOR FLOATING RATE
ADVANTAGE FUND

By: Stein Roe & Farnham Incorporated,
as Advisor,

By

/s/ Brian W. Good

Name: Brian W. Good
Title: Sr. Vice President &
Portfolio Manager

(Flowserve Corporation First Amendment to Credit Agreement)

GALAXY CLO 1999-1, LTD.,

By: SAI Investment Adviser, Inc.,
its Collateral Manager,

By

/s/ Thomas G. Brandt

Name: Thomas G. Brandt
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

KZH SOLEIL LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

KZH SOLEIL-2 LLC,

By

/s/ Susan Lee

Name: Susan Lee
Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

TEXTRON FINANCIAL CORPORATION,

By

/s/ Matthew J. Colgan

Name: Matthew J. Colgan
Title: Director

(Flowserve Corporation First Amendment to Credit Agreement)

COLUMBUS LOAN FUNDING LTD.

BY TRAVELERS ASSET MANAGEMENT INTERNATIONAL

COMPANY, LLC

By

/s/ Matthew J. McInerny

Name: Matthew J. McInerny

Title: Assistant Investment Officer

TRAVELERS CORPORATE LOAN FUND INC.,

BY TRAVELERS ASSET MANAGEMENT INTERNATIONAL COMPANY, LLC

By

/s/ Matthew J. McInerny

Name: Matthew J. McInerny

Title: Assistant Investment Officer

THE TRAVELERS INSURANCE COMPANY

By

/s/ Matthew J. McInerny

Name: Matthew J. McInerny

Title: Assistant Investment Officer

(Flowserve Corporation First Amendment to Credit Agreement)

APEX (TRIMARAN) CDO I, LTD.,

By Trimaran Advisors, L.L.C.

By

/s/ Dean T. Criares

Name: Dean T. Criares

Title: Managing Director

(Flowserve Corporation First Amendment to Credit Agreement)

TYLER TRADING, INC.,

By

/s/ Don C. Day

Name: Don C. Day

Title: Vice President

(Flowserve Corporation First Amendment to Credit Agreement)

VAN KAMPEN CLO II, LIMITED
BY: VAN KAMPEN MANAGEMENT INC.,
AS COLLATERAL MANAGER

By
/s/ Darvin D. Pierce

Name: Darvin D. Pierce
Title: Executive Director

VAN KAMPEN
PRIME RATE INCOME TRUST
BY: VAN KAMPEN INVESTMENT ADVISORY CORP.

By
/s/ Darvin D. Pierce

Name: Darvin D. Pierce
Title: Executive Director

VAN KAMPEN
SENIOR INCOME TRUST
BY: VAN KAMEPN INVESTMENT ADVISORY CORP.

By
/s/ Darvin D. Pierce

Name: Darvin D. Pierce
Title: Executive Director

WHITNEY CASHFLOW FUND II,

By
/s/ Michael Deflorio

Name: Michael Deflorio
Title: Managing Director

WHITNEY PRIVATE DEBT FUND L.P.,

By
/s/ Michael Deflorio

Name: Michael Deflorio
Title: Managing Director

WINGED FOOT FUNDING TRUST,

By

/s/ Ann E. Morris

Name: Ann E. Morris

Title: Authorized Agent

(Flowserve Corporation First Amendment to Credit Agreement)

EXHIBIT 10.45

H. D. WYNN: SUMMARY OF SEPARATION BENEFITS

Continuation of employment in a consulting role from July 27, 2001, until retirement on February 28, 2002, at base pay in effect on July 27, 2001, with no change in benefits.

Severance pay equal to annual base salary as of the date of termination plus the average of the annual bonuses actually paid for 1999 and 2000, payable in monthly installments over a 12-month period, beginning on March 1, 2002.

Vesting in unvested portion of transitional supplemental executive retirement benefit.

EXHIBIT 13.1

FINANCIAL REVIEW

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of
Flowserve Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Flowserve Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Dallas, Texas
February 5, 2002

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Shareholders of
Flowserve Corporation

We have audited the accompanying consolidated statement of operations, comprehensive loss, shareholders' equity, and cash flows of Flowserve Corporation and subsidiaries for the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Flowserve Corporation and subsidiaries for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP
Dallas, Texas
February 10, 2000, except for Note 8 as to which date is July 14, 2000

REPORT OF MANAGEMENT

The Company's management is responsible for preparation of the accompanying consolidated financial statements. These statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on management's best estimates and business judgment. Management maintains a system of internal controls, which in management's opinion provides reasonable assurance that assets are safeguarded and transactions properly recorded and executed in accordance with management's authorization. The internal control system is supported by internal audits and is tested and evaluated by the independent auditors in connection with their annual audit. The Board of Directors pursues its responsibility for financial information through an Audit/ Finance Committee comprised entirely of independent directors. This committee regularly meets not only with management, but also separately with representatives of the independent external and internal auditors.

/s/ C. SCOTT GREER

C. Scott Greer
Chairman, President and Chief Executive Officer

/s/ RENEE J. HORNBAKER

Renee J. Hornbaker
Vice President and Chief Financial Officer

/s/ KATHLEEN A. GIDDINGS

Kathleen A. Giddings
Vice President and Chief Accounting Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis are provided to increase understanding of, and should be read in conjunction with, the consolidated financial statements and accompanying notes.

Flowserve produces engineered and industrial pumps, precision mechanical seals, automated and manual quarter-turn valves, control valves and valve actuators, and provides a range of related flow management services worldwide, primarily for the process industries. Equipment manufactured and serviced by the Company is predominately used in industries that deal with difficult-to-handle and often corrosive fluids in environments with extreme temperature, pressure, horsepower and speed. Flowserve's businesses are affected by economic conditions in the United States and other countries where its products are sold and serviced, the cyclical nature of the petroleum, chemical, power and other industries served, by the relationship of the U.S. dollar to other currencies, and by the demand for and pricing of customers' products. The Company believes the impact of these conditions is somewhat mitigated by the strength and diversity of Flowserve's product lines, geographic coverage and significant installed base, which provides potential for an annuity stream of revenue from parts and services.

RESULTS OF OPERATIONS

In general, 2001 results were higher than the prior year due to the Company's acquisition of Ingersoll-Dresser Pump Company (IDP) on August 8, 2000. That acquisition plus the Company's acquisition of Innovative Valve Technologies, Inc. (Invatec) on January 12, 2000 generally resulted in 2000 results greater than those of 1999. These acquisitions are discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis. Pro forma results referenced throughout this discussion give effect as if the Company's August 2000 acquisition of IDP had been completed on January 1, 2000 and includes purchase accounting adjustments and estimated financing costs. Special items include integration expense, restructuring expense, extraordinary items and, in 1999, other special items for asset impairment, executive separation contracts and facilities closure costs.

Sales increased 24.7% to $1,917.5 million in 2001, compared with $1,538.3 million in 2000. Pro forma sales in 2000 were $1,960.1 million. Sales for 2001 compared to the prior year on a pro forma basis were adversely affected by an unfavorable currency translation of approximately 1.9%, the divestiture of product lines in late 2000 to comply with the Department of Justice consent decree to acquire IDP and the closure or sale of several service operations. Additionally, sales in 2001 were adversely impacted by the disruption following September 11th and its resultant impact on an already weakening U.S. economy, which contributed to a reduction in quick turnaround business. Sales increased 44.9% to $1,538.3 million in 2000, compared with $1,061.3 million in 1999. This increase was largely a result of the acquisitions.

The change in sales is discussed further in the following section on Business Segments.

SALES AND BOOKINGS

(In millions of dollars)

	2001	2000	1999
Bookings	$1,975.5	$1,521.6	$1,039.3
Sales	1,917.5	1,538.3	1,061.3

Bookings, or incoming orders for which there are purchase commitments, were $1,975.5 million in 2001, or 29.9% higher than 2000 when bookings were $1,521.6 million. Pro forma bookings in 2000 were $2,036.8 million. Bookings in 2001 were relatively strong in the petroleum, power and water markets. Bookings activity was mixed-to-slightly weaker in the chemical and general industrial markets. Bookings might have been greater had it not been for the adverse impact of the September 11th events. The quick turnaround business, including maintenance, repair and overhaul (MRO), manual valves, parts, seals and ISO and ANSI pump bookings, slowed after September 11th as many of the Company's customers instituted tighter security measures at their plant sites. Bookings in 2000 were 46.4% higher than in 1999 when bookings were $1,039.3 million. This increase was largely a result of the acquisitions. Backlog at December 31, 2001 was $662.8 million compared with $659.3 million in the previous year. The increase in backlog in 2001 reflects bookings strength in the petroleum, power and water markets, products which tend to have longer lead times, partially offset by a downturn in chemical and industrial markets, products which tend to have shorter lead times. Backlog in 2000 was up from 1999 due to the acquisitions.

Sales originating outside the United States were 43% of total sales in 2001, compared with 38% in 2000 and 42% in 1999. The higher 2001 percentage is primarily due to including IDP's significant international operations for the full year in 2001. The lower 2000 percentage is primarily due to Invatec's markets being principally in the United States

and the negative impact of currency translation. Sales to destinations outside the United States were 48%, unchanged from the prior year.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Flowserve Pump Division for engineered and industrial pumps; Flow Solutions Division for precision mechanical seals and flow management services; and Flow Control Division for automated and manual quarter-turn valves, control valves, nuclear valves and valve actuators.

Sales, including intersegment sales, and operating income before special items, for each of the three business segments follows:

(In millions of dollars)	Flowserve Pump Division		
	2001	2000	1999
Sales	$1,030.5	$ 672.2	$ 353.2
Operating income (before special items)	124.4	78.8	23.1

Sales of pumps and pump parts for the Flowserve Pump Division (FPD), increased to $1,030.5 million in 2001 from $672.2 million in 2000 and $353.2 million in 1999. The sales increases were due to the acquisition of IDP. On a pro forma basis, revenues were $1,048.6 million in 2000. The decrease in 2001 sales compared to 2000 pro forma sales generally resulted from unfavorable currency translation, which reduced sales by about 2.1% year-over-year, and the divestiture of product lines in late 2000 to comply with the Department of Justice consent decree. Sales would likely have been higher if not for the slowdown in quick turnaround sales following September 11th. On a comparable operations basis without IDP and Invatec, sales in 2000 declined slightly compared to 1999 primarily due to unfavorable currency translation.

FPD operating income in 2001, before special items, increased 57.9% from 2000 results of $78.8 million and 72.8% from pro forma 2000 results of $72.0 million. FPD operating income in 2000, before special items, increased 241.1% from 1999 results of $23.1 million. Operating income, before special items, as a percentage of FPD sales increased to approximately 12.1% in 2001 from 11.7% in 2000 on an as reported basis and 6.9% on a pro forma basis, and from 6.5% in 1999. The increase primarily resulted from the synergy savings realized from the IDP integration activities, which include the reduction of overlapping sales activities and the closure, divestiture or significant downsizing of a number of pump plants.

(In millions of dollars)	Flow Solutions Division		
	2001	2000	1999
Sales	$ 638.5	$ 624.0	$ 438.5
Operating income (before special items)	79.4	68.2	56.1

Sales of seal products and services for the Flow Solutions Division (FSD) increased to $638.5 million in 2001, compared with $624.0 million in 2000 and $438.5 million in 1999. Sales in 2001 were higher than in 2000 primarily due to a full year of the inclusion of a portion of IDP's service repair business in 2001. Pro forma sales were $669.5 million in 2000. The decrease from pro forma sales is due to unfavorable currency translation of 1.5%, the reduction in quick turnaround seal shipments and service business after the September 11th events, and the closure or sale of several service operations. The sales increase in 2000 was primarily due to the acquisitions of IDP and Invatec. On a comparable operations basis without IDP and Invatec, sales in 2000 increased slightly, generally due to the seal business.

FSD operating income in 2001 of $79.4 million, before special items, was 16.4% above 2000 results of $68.2 million and 4.6% above 2000 pro forma results of $75.9 million. FSD operating income in 2000, before special items, increased 21.6% from 1999 results of $56.1 million. Operating income, before special items, as a percentage of FSD sales increased to 12.4% in 2001 from 10.9% in 2000 on an as reported basis and 11.3% on a pro forma basis, and from 12.8% in

1999. The improvement in 2001 reflects the benefits of the integration of the service operations and the consolidation of the North American seal business. The decrease in 2000 is due to the acquisition of Invatec, including disruption during the integration of Invatec and Invatec's historically lower gross margins, and unfavorable variances and period costs related to the restructuring of the seal business.

	Flow Control Division		
(In millions of dollars)	2001	2000	1999
Sales	$ 278.9	$ 276.3	$ 295.3
Operating income (before special items)	31.5	28.8	25.1

Sales of valves and valve automation products for the Flow Control Division (FCD) increased to $278.9 million in 2001 from $276.3 million in 2000 and were below the $295.3 million in 1999. Sales in 2001 increased slightly over 2000 despite an unfavorable currency translation, which reduced sales by about 1.8% and the slowdown in quick turnaround manual valve sales after the September 11th events. Sales in 2000 decreased primarily due to a general decline in business levels in the served markets of chemical, petrochemical and refining. The decline in 2000 was also caused by unfavorable currency translation of about 4%.

FCD operating income in 2001 of $31.5 million, before special items, increased 9.4% from 2000 results of $28.8 million. FCD operating income, before special items, in 2000 increased 14.7% from 1999 results of $25.1 million. Operating income before special items, as a percentage of FCD sales was 11.3% in 2001, compared with 10.4% in 2000 and 8.5% in 1999. The improved operating margin in 2001 was primarily due to efficiency improvements, which resulted in cost reductions. The increase in 2000 was primarily due to the benefits of the 1999 restructuring program.

CONSOLIDATED RESULTS

The gross profit of $614.6 million in 2001 increased 21.2% compared with 2000 reflecting the IDP acquisition. The gross profit in 2001 increased 2.5% compared with 2000 on a pro forma basis, despite a 2.2% reduction in pro forma sales. Gross profit margin, gross profit as a percentage of sales, was 32.0% in 2001, 33.0% in 2000 and 34.2% in 1999. The decrease in 2001 and 2000 gross profit as reported was primarily due to the acquisition of IDP, as IDP's margins historically are lower than those for the balance of the Company. The Company's margin in 2001 increased 140 basis points when compared with the 2000 pro forma margin of 30.6%. This improvement primarily resulted from IDP manufacturing integration synergies that resulted from closing, divesting or significantly downsizing a number of pump manufacturing facilities and numerous service and repair facilities. Additionally, the Company benefitted from the consolidation of its North American seal business and consolidation of certain other valve businesses throughout 2000. The benefits were partially offset by a less profitable product mix of chemical process pumps, manual valves, seals and service which was caused by the slowdown in quick turnaround business.

Inventories are stated at the lower of cost or market. Cost is determined for U.S. inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method. The Company's LIFO reserve for U.S. inventories declined to $33.9 million at December 31, 2001 from $37.5 million at December 31, 2000 due primarily to a reduction in the FIFO cost caused by deflation in materials cost in 2001. Therefore, the impact of this reduction on 2001 earnings was insignificant.

Selling, general and administrative expense was $410.6 million in 2001, compared with $360.3 million in 2000 and $301.5 million in 1999. The increased expense in 2001 and 2000 was due to the acquisitions and period costs associated with the Company's various facility consolidation projects. Selling, general and administrative expense of $410.6 million in 2001 declined 9.3% from 2000 on a pro forma basis. Selling and administrative expense in 1999 included $5.8 million in special items for executive separation contracts and certain costs relating to fourth-quarter 1999 facility closings. On a comparable operations basis without IDP and Invatec, the expense in 2000 was down over 8%, compared with 1999 (excluding the results of IDP and Invatec). Selling, general and administrative expense as a percentage of net sales was 21.4% in 2001, compared with 23.4% in 2000 as reported and 23.1% in 2000 on a pro forma basis, and 27.9% in 1999, excluding $5.8 million in special items for executive separation contracts and certain costs relating to fourth-quarter 1999 facility closings. The decrease in 2001 from the 2000 and 1999 percentages is due to IDP integration savings, including sales force reductions, the IDP headquarters closure, productivity improvements, a reduction in incentive compensation due to lower than planned performance and other cost reduction initiatives.

Operating income of $204.0 million, before special items, in 2001 increased 39.2% over 2000 and 38.4% over 2000 on a pro forma basis. Operating income of $146.6 million, before special items, in 2000 increased 101.7% over 1999. The improvements generally reflect synergy benefits related to the acquisition and integration of IDP, offset in part by the impact of the aforementioned product mix shift.

The 2001 restructuring benefit of $1.2 million and 2000 restructuring charge of $19.4 million were realized as part of the IDP integration program. The benefit resulted from a change in estimate in 2001. The charge of $15.9 million in 1999 was related to the 1999 restructuring program. Integration expense was $63.0 million in 2001, $35.2 million in 2000, and $14.2 million in 1999. Integration expense in 2001 and 2000 related to the acquisition of IDP. The 1999 expense related solely to the Flowserver program, a business process improvement program, which was an extension of the 1997 and 1998 Flowserve merger integration program. As part of the 1999 restructuring program, the Company also recorded special items of $5.1 million in cost of sales for inventory and fixed asset impairments and special items of $5.8 million in selling, general and administrative expense for executive separation contracts and certain costs related to fourth-quarter 1999 facility closures.

Net interest expense was $118.1 million in 2001, compared with $70.3 million in 2000 and $14.7 million in 1999. The 2001 and 2000 amounts reflect the increased interest costs associated with the financing of the Invatec and IDP acquisitions partially offset by lower borrowing rates during 2001. About two-thirds of the debt at December 31, 2001 is floating rate debt and can be impacted by market interest rate changes.

The effective tax rate, before extraordinary items, was 36.2% in 2001, compared with 34.0% in 2000 and 33.3% in 1999. The increased tax rates in 2001 and 2000 reflect the acquisition of IDP, which has a greater mix of business in higher taxed foreign countries.

In 2001, the Company recognized a net of tax extraordinary item of $17.9 million, or $0.46 per share, related to the prepayment premium, other direct costs, and write-off of unamortized prepaid financing fees

and discount as a result of the early extinguishment of $133 million of 12.25% senior subordinated notes with proceeds from a sale of the Company's common shares. In 2000, the Company recognized a net of tax extraordinary item which totaled $0.05 per share, related to the prepayment of its outstanding indebtedness which was required as part of the financing to acquire IDP.

EARNINGS PER SHARE

Earnings (loss) after special items were a loss of $1.5 million ($0.04 per share) in 2001, compared with earnings of $13.2 million ($0.35 per share) in 2000 and earnings of $12.2 million ($0.32 per share) in 1999. Special items include extraordinary items, restructuring expenses (benefit), integration expenses and, in 1999, inventory and fixed asset impairments, and costs associated with obligations under executive employment and separation agreements. Earnings before special items were $55.8 million ($1.42 per share) in 2001, compared with $51.0 million ($1.35 per share) in 2000 and $39.5 million ($1.04 per share) in 1999. Earnings before special items were $10.7 million ($0.28 per share) in 2000 on a pro forma basis. The increase in earnings before special items in 2001 and 2000 was due to the acquisitions during 2000, synergy benefits related to the acquisitions, as well as the benefits of Flowserve's restructuring program initiated at the end of 1999.

Operating results before special items and pro forma results should not be considered an alternative to operating results calculated in accordance with generally accepted accounting principles.

RESTRUCTURING

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, resulted in the net reduction of approximately 1,100 positions and have resulted in at least $90 million in annual synergy savings at full run-rates. The Company expects the cost of achieving these synergies will be approximately $158 million, net of the Tulsa reversal and excluding capital expenditures associated with the integration. The program included the closure of IDP's former headquarters, the closure, divestiture or significant downsizing of a number of pump manufacturing facilities and service and repair centers, and a reduction of sales and sales support personnel.

The Company's current estimate of $65 million in restructuring cost is comprised of approximately $42 million which relates to the IDP operations acquired, of which $26 million has been capitalized in goodwill as part of the purchase price of IDP ($42 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $23 million relates to the Flowserve operations and was recorded as restructuring expense. This expense was offset by a reversal of a restructuring charge of $5.3 million recorded in 1999 for the Company's Tulsa facility. As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. This facility had been previously targeted for closure in 1999. Additionally, during 2000 and 2001, the Company recorded non-cash reductions to reclassify certain retirement obligations and other liabilities from the restructuring reserve and to recognize changes in estimate in the restructuring reserve.

The balance of the $158 million in cost was recorded as integration expense as incurred. During 2001 and 2000, the Company incurred $63.0 million and $35.2 million, respectively, in integration costs in conjunction with this program. The Company has substantially completed its integration activities as of December 31, 2001.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)

Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	$ 2,402	$ 3,119	$ 5,521

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of several facilities and a reduction in workforce at those and other locations.

As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. Since the facility had been previously targeted for closure in 1999, this resulted in a

non-cash reduction of the existing 1999 restructuring reserve of $5.3 million in 2000.

The 1999 restructuring program resulted in a net reduction of approximately 261 employees at a cost of $8.5 million. In addition, exit costs associated with the facilities closings were $1.9 million.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$ 12,900	$ 2,960	$ 15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	12,798	2,960	15,758
Cash expenditures	(6,766)	(1,932)	(8,698)
Non-cash reduction	(4,364)	(1,028)	(5,392)
Balance at December 31, 2000	1,668	--	1,668
Cash expenditures	(1,668)	--	(1,668)
Balance at December 31, 2001	$ --	$ --	$ --

BUSINESS PROCESS IMPROVEMENT INITIATIVE

In 1998, the Company's Board of Directors approved a $120 million expenditure for Flowserver. This business process improvement program was planned to have costs and benefits incremental to the initial merger integration program. Flowserver included the standardization of the Company's processes and implementation of a global information system to facilitate common practices.

In the fourth quarter of 1999, the Company re-evaluated the Flowserver project and determined that the scope of the program would be scaled back significantly and the overall duration of the program will extend beyond its original five-year plan.

In 2000, the Company incurred costs associated with the project of $7.3 million recorded as selling and administrative expense and $4.8 million as capital expenditures. In 1999, these costs were $14.2 million recorded as integration expenses and $11.4 million as capital expenditures. Expenses prior to 2000 were recorded as integration expenses as they generally related to the development of a common, integrated business model for the Company. No costs were incurred for this project in 2001.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis is based on the Company's consolidated financial statements and related footnotes contained within this report. The Company's more critical accounting policies used in the preparation of those consolidated financial statements are discussed below.

Revenues and costs are generally recognized based on the shipping terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions required of the Company. Revenue for certain longer-term contracts is recognized based on the percentage of completion method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates made by management include the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowances, restructuring accruals, warranty accruals, legal and environmental accruals, insurance accruals, and retirement benefit obligations.

The Company's estimates for uncollectible accounts receivable are based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends, including changes in the industries served by the Company. Estimates are determined for inventory valuation reserves based upon management's assessment of the market conditions for its products. The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing net operating losses and tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of estimated future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies. The Company has net deferred tax assets totaling $51 million related to net operating loss and foreign tax credit carryforwards at December 31, 2001.

Warranty obligations are contingent upon product failure rates, materials usage or service delivery costs. The Company estimates its warranty provisions based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. Legal and environmental reserves are recorded based upon a case by case analysis of the facts, circumstances and related costs. Insurance reserves are recorded based upon an analysis of the Company's claim loss history and an estimate of incurred but not recorded claims. Retirement benefit obligations are affected by a number of estimates made by management in consultation with independent actuaries, including the discount rate, long-term rate of return on assets, and assumed rate of increase in health care costs.

These estimates and assumptions are based upon the best available information and are subject to change as conditions within and beyond the control of the Company change, including but not limited to economic conditions, the availability of additional information and actual experience rates different from those used in the Company's estimates. Accordingly, actual results could differ from those estimates.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATIONS

Cash flows from operations and borrowings available under the Company's existing credit agreement are its primary sources of short-term liquidity. Cash flows used in operating activities in 2001 were $47.9 million, compared with providing $18.4 million in 2000 and $84.1 million in 1999. Cash flows from operating activities for 2001 were significantly below 2000 cash flows, generally due to payments associated with the IDP integration program, including restructuring and integration payments, higher interest payments attributable to the August 2000 acquisition of IDP and increases in working capital. The primary reasons for the increase in working capital were an increase in inventories in support of backlog for future shipments, increased finished goods safety stock to meet customer deliveries during the integration process, and a systems conversion at a valve plant. At December 31, 2001, the Company had drawn $70.0 million of revolving credit primarily to fund integration activities and increases in working capital. The Company believes cash flows from operating activities would have provided approximately $6 million in 2001 if not for funding the costs of the restructuring activities, integration of IDP and the extraordinary items. The decrease in operating cash flow in 2000 from 1999 primarily resulted from an increase in accounts receivable due to the high volume of FPD shipments late in the year. FPD shipments, on a pro forma basis including IDP, have been historically weighted toward the fourth quarter each year.

The Company expects improved cash flows from operating activities in 2002 due to reduced restructuring and integration payments, a full year of synergy benefits, lower interest payments and an increased focus on working capital management. The Company believes improved cash flows from operating activities combined with availability under its existing credit agreement will be sufficient to enable the Company to meet its cash flow needs during 2002. However, cash flows from operations could be adversely affected by economic, political and other risks associated with international sales and operations, intense competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors.

PAYMENTS FOR ACQUISITIONS

In January 2000, the Company acquired Invatec, a company principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The transaction was accounted for under the purchase method of accounting and was financed by utilizing available funds. The results of operations for Invatec are included in the Company's consolidated financial statements from the date of acquisition. The purchase price was approximately $16.6 million in cash for shares tendered. Net debt of $87.7 million was simultaneously paid off through borrowings under the Company's revolving credit agreement.

In August 2000, the Company completed the acquisition of IDP, a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. As part of the purchase, the Company acquired $25 million in cash. The seller also agreed to provide for severance for certain employees and costs related to the accelerated closure of several U.S. facilities which the Company estimated at $52 million. The transaction, which was accounted for as a purchase, was financed with a combination of senior secured term loans and issuance of senior subordinated notes. Upon closing of the transaction, the existing Company debt was also refinanced into the new senior secured credit facility.

The Company regularly evaluates acquisition opportunities of various sizes. Its ability to raise additional capital through debt or equity financing is a critical consideration in any such evaluation.

CAPITAL EXPENDITURES

Capital expenditures were $35.2 million in 2001, compared with $27.8 million in

2000 and $40.5 million in 1999. Capital expenditures were funded primarily by operating cash flows and bank borrowings. For each of the three years, capital expenditures were invested in new and replacement machinery and equipment, information technology, integration activities including structures and realignment and equipment required at receiving facilities. Capital expenditures included $4.8 million in 2000 and $11.4 million in 1999 related to Flowserver.

Cash proceeds on the disposal of assets associated with the IDP integration activities were $8.7 million in 2001. Cash proceeds from the sale of Tulsa and disposal of other assets were $5.4 million in 2000.

FINANCING

During the third quarter of 2000, in connection with the acquisition of IDP, the Company entered into a Senior Secured Credit Facility (the Credit Facility) which included a $275 million term loan (Tranche A) due June 2006, a $475 million term loan (Tranche B) due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The Credit Facility is secured by substantially all domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. The term loans bear floating interest rates based on LIBOR plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. The credit spread can increase or decrease based on the Company's leverage ratio as defined. At December 31, 2001 the interest rates on the term loans were 4.69%, 4.88% and 5.06% relating to Tranche A and 5.63% and 5.81% relating to Tranche B. As of December 31, 2001, $70.0 million of the revolving credit was drawn and $726.9 million of the term loans were outstanding.

The term loans require scheduled principal payments which began June 30, 2001. At December 31, 2001, the Company had repaid $23 million of the term loans. The scheduled principal payments of the term loans outstanding at December 31, 2001 are summarized as follows: $44.5 million in 2002, $59.4 million in 2003, $63.3 million in 2004, $67.3 million in 2005, $105.9 million in 2006, $257.5 million in 2007 and $129.1 million in 2008. Effective December 31, 2001, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Facility and the indenture, to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2002 under this provision.

The revolving credit facility allows the Company to issue up to $200 million in letters of credit. As of December 31, 2001, $27.4 million of letters of credit had been issued under the facility. As letters of credit issued under the facility reduce availability, the Company had $202.6 million remaining in unused borrowing capacity at December 31, 2001 under the revolving credit facility.

The Company also issued 10 year senior subordinated notes on August 8, 2000 in a U.S. dollar tranche and a Euro tranche. Proceeds of $285.9 million from the dollar tranche and EUR 98.6 million from the Euro tranche, equivalent to $89.2 million, were also used in completing the IDP acquisition. The notes, issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal payment prior to maturity in August 2010. Beginning in August 2005, the notes become callable at a fixed redemption price. The notes can also be redeemed by the Company under certain circumstances and have mandatory redemption features under certain circumstances, including a change in control as defined. Interest on the notes is payable semi-annually in February and August. A portion of these notes was repaid in 2001 as described in the next paragraph.

During 2001, the Company completed an offering of approximately 6.9 million shares of its common stock for net proceeds of approximately $154 million. These proceeds were used to prepay $101.5 million of the U.S. dollar tranche, EUR 35 million of the Euro tranche of the senior subordinated notes, and to pay associated prepayment premiums and other direct costs. The Company recorded an extraordinary item of $17.9 million, net of tax, comprised of the prepayment premiums, other direct costs, and the write-off of unamortized prepaid financing fees and discount for the portion of the senior subordinated notes that was prepaid.

The Company recognizes that it has incurred significant indebtedness for the recent acquisitions that is substantial in relation to shareholders' equity. This indebtedness increases the Company's vulnerability to adverse economic and industry conditions, requires the Company to dedicate a substantial portion of cash flow from operating activities to payments on the indebtedness and could limit its ability to borrow additional funds and/or raise additional capital.

The provisions of the Credit Facility require the Company to meet or exceed specified financial covenants that are defined in the Credit Facility. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the Credit Facility and the senior subordinated notes require limitations or restrictions on indebtedness, liens, sale and leaseback transactions, acquisitions, asset sales, payment of dividends or other distributions, capital expenditures, and other customary restrictions. At December 31, 2001, the Company was in compliance with these covenants.

At December 31, 2001, net debt was 71.3% of the Company's capital structure, compared with 78.1% at December 31, 2000 and 35.7% at December 31, 1999. The ratio decreased in 2001 due to the repayment of a portion of the senior subordinated notes and the term loans combined with an increase in shareholders' equity due to the common stock offering. The ratio increased in 2000 due to the financing incurred for the 2000 acquisitions. The interest coverage ratio of the Company's indebtedness, as defined in the Credit Facility, was 1.7 times interest at December 31, 2001, compared with 2.0 times interest at December 31, 2000 and 4.3 times interest at December 31, 1999.

Maturities of the Company's long-term debt, and future capital lease and operating lease obligations at December 31, 2001 are summarized as follows: $57 million in 2002, $69 million in 2003, $70 million in 2004, $73 million in 2005, $179 million in 2006 and $635 million thereafter.

The return on average net assets, before special items, based on results for 2001 was 7.8%, compared with 8.9% for 2000 and 7.7% for 1999. Including the impact of special items, the return on average net assets was 4.4% for 2001, compared with 5.5% for 2000 and 3.4%

for 1999. The decrease in the return on average net assets both before and after special items in 2001 compared with 2000 is generally due to the goodwill and other intangible assets associated with the IDP acquisition. The increase in 2000 compared with 1999 is due to the benefits of the 1999 restructuring program and a disproportionate share of IDP's 2000 earnings included during the period from the acquisition date through December 31, 2000 due to the seasonality of its business. The return on average shareholders' equity before special items was 18.5% for 2001, compared with 16.7% for 2000 and 11.7% for 1999. The increases in return on average shareholders' equity before special items in 2001 compared with 2000 and in 2000 compared with 1999 are due to improved earnings before special items and the reduction in shareholders' equity due to other comprehensive expense (principally for cumulative translation adjustment). The return on shareholders' equity, including special items, was (0.5)% for 2001, 4.4% for 2000 and 3.6% for 1999. The decrease in return on average shareholders' equity including special items in 2001 compared with 2000 is generally due to an increase in special items. The increase in return on average shareholders' equity including special items in 2000 compared with 1999 is generally due to earnings from IDP, partially offset by increased special items.

Inflation during the past three years had little impact on the Company's consolidated financial performance. Foreign currency translation had the effect of reducing the Company's sales by 2% and earnings before income taxes by 9% in 2001, sales by 5% and earnings before income taxes by 12% in 2000 and sales by 1% and earnings before income taxes by 9% in 1999.

RETIREMENT BENEFITS

The Company sponsors several defined benefit pension plans and post-retirement health care plans. The Company's recorded liability for these plans was $146.8 million at December 31, 2001 and $122.2 million at December 31, 2000. The increase in the liability in 2001 reflects a decline in the fair value of pension plan assets due to weak market performance and increased benefits payments due to personnel reductions in recent years. The Company expects to fund contributions to the plans from operating cash flows.

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company has market risk exposure arising from changes in interest rates and foreign currency exchange rate movements.

The Company's earnings are impacted by changes in short-term interest rates as a result of borrowings under its Credit Facility, which bear interest based on floating rates. At December 31, 2001, after the effect of interest rate swaps held by the Company, the Company had approximately $650 million of variable-rate debt obligations outstanding with a weighted average interest rate of 5.79%. A hypothetical change of 100-basis points in the interest rate for these borrowings, assuming debt levels at December 31, 2001, would change interest expense by approximately $6.5 million for the year ended December 31, 2001.

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it expects all counterparties to meet their obligations given their creditworthiness. As of December 31, 2001 and 2000, the Company had $150 million and $75 million of notional amount in outstanding interest rate swaps with third parties with maturities of up to 5 years.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. Based on the sensitivity analysis at December 31, 2001, a 10% adverse change in the foreign currency exchange rates could impact the Company's results of operation by $3.0 million. The primary currencies to which the Company has exposure are the Euro, British pound, Canadian dollar, Mexican peso, Japanese yen, Singapore dollar, Brazilian real and Australian dollar.

Exposures are hedged primarily with foreign currency forward contracts that generally have maturity dates less than one year. Company policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, the Company does not enter into foreign currency contracts for trading purposes where the objective is to generate profits. As of December 31, 2001 and 2000, the Company had an U.S. dollar equivalent of $69.4 million and $103.9 million in outstanding forward contracts with third parties.

Generally, the Company views its investments in foreign subsidiaries from a long-term perspective, and therefore, does not hedge these investments. The Company uses capital structuring techniques to manage its investment in foreign subsidiaries as deemed necessary.

The Company incurred foreign currency translation losses of $37.6 million in 2001, $20.7 million in 2000 and $20.9 million in 1999. These losses, included in other comprehensive expense, were the result of a general strengthening of the U.S. dollar versus the Euro and other currencies of the Company's foreign subsidiaries.

EURO CONVERSION

On January 1, 1999, 11 European Union member states (Germany, France, The Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Portugal and Luxembourg) adopted the Euro as their common national currency. Until January 1, 2002, either the Euro or a participating country's national currency will be accepted as legal tender. Beginning on January 1, 2002, Euro-denominated bills and coins will be issued, and by July 1, 2002, only the Euro will be accepted as legal tender. The Company does not expect its future financial condition, results of operations or cash flows to be materially impacted by the Euro conversion.

ACCOUNTING DEVELOPMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and is effective for the Company on January 1, 2002. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period for intangible assets will no longer be limited to forty years.

The Company is currently assessing the impact of SFAS 141 and 142 and has not yet determined the full effects these statements will have on its consolidated financial position or results of operations. However, the Company has estimated that the reduction in annual amortization expense for goodwill and indefinite lived intangible assets will total approximately $19 million, or approximately $14 million or $0.30 per share after-tax.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for the Company on January 1, 2003. The Company is currently assessing the impact of SFAS No. 143 and has not yet determined the effects, if any, it will have on its consolidated financial position or results of operations.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Annual Report and other written reports and oral statements made from time-to-time by the Company contain various forward-looking statements and include assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: changes in the financial markets and the availability of capital; changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; the Company's ability to integrate past and future acquisitions into its management and operations; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic conditions and the extent of economic growth in areas inside and outside the United States; unanticipated difficulties or costs associated with the implementation of systems, including software; the Company's ability to meet the financial covenants and other requirements of its financing agreements; repercussions from the terrorist attacks of September 11, 2001, and the response of the United States to those attacks; technological developments in the Company's products as compared to those of its competitors; changes in prevailing interest rates and the effective interest costs which the Company bears; and adverse changes in the regulatory climate and other legal obligations imposed on the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
(Amounts in thousands, except per share data)	2001	2000	1999
Sales	$ 1,917,507	$ 1,538,293	$ 1,061,272
Cost of sales	1,302,955	1,031,381	697,928
Gross profit	614,552	506,912	363,344
Selling, general and administrative expense	410,563	360,306	301,529
Restructuring expenses	(1,208)	19,364	15,860
Integration expenses	63,043	35,211	14,207
Operating income	142,154	92,031	31,748
Net interest expense	118,072	70,321	14,677
Other income, net	(1,547)	(1,474)	(1,174)
Earnings before income taxes	25,629	23,184	18,245
Provision for income taxes	9,275	7,876	6,068
Earnings before extraordinary items	16,354	15,308	12,177
Extraordinary items, net of income taxes (See footnote 7)	(17,851)	(2,067)	--
Net (loss) earnings	$ (1,497)	$ 13,241	$ 12,177
Earnings (loss) per share (basic and diluted):			
Before extraordinary items	$ 0.42	$ 0.40	$ 0.32
Extraordinary items, net of income taxes	(0.46)	(0.05)	--
Net (loss) earnings per share	$ (0.04)	$ 0.35	$ 0.32

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year ended December 31,		
(Amounts in thousands)	2001	2000	1999
Net (loss) earnings	$ (1,497)	$ 13,241	$ 12,177
Other comprehensive (expense) income:			
Foreign currency translation adjustments	(37,560)	(20,724)	(20,874)
Retirement plan adjustments (See footnote 10)	(16,223)	(1,149)	(842)
Cumulative effect of change in accounting principle (See footnote 5)	840	--	--
Hedging transactions (See footnote 5)	(4,985)	--	--
Other comprehensive expense	(57,928)	(21,873)	(21,716)
Comprehensive loss	$ (59,425)	$ (8,632)	$ (9,539)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(Amounts in thousands, except per share data)	December 31, 2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,533	$ 42,341
Accounts receivable, net	455,861	487,274
Inventories	347,591	305,958
Current deferred tax asset	36,316	39,726
Prepaid expenses	36,838	22,753
Total current assets	898,139	898,052
Property, plant and equipment, net	362,388	405,412
Goodwill, net	515,175	506,576
Other intangible assets, net	131,079	139,195
Other assets	145,194	160,908
Total assets	$2,051,975	$2,110,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 178,480	$ 172,366
Accrued liabilities	193,768	243,553
Long-term debt due within one year	44,523	18,098
Total current liabilities	416,771	434,017
Long-term debt due after one year	996,222	1,111,108
Retirement benefits and deferred items	227,963	260,107
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value, 1,000 shares authorized, no shares issued	--	--
Common shares, $1.25 par value Shares authorized - 120,000 Shares issued - 48,414 and 41,484	60,518	51,856
Capital in excess of par value	211,113	65,785
Retained earnings	355,998	357,495
	627,629	475,136
Treasury stock, at cost - 3,622 and 4,048 shares	(82,718)	(92,545)
Deferred compensation obligation	8,260	6,544
Accumulated other comprehensive loss	(142,152)	(84,224)
Total shareholders' equity	411,019	304,911
Total liabilities and shareholders' equity	$2,051,975	$2,110,143

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	2001		2000		1999	
(Amounts in thousands)	Shares	Amount	Shares	Amount	Shares	Amount

COMMON SHARES						
Beginning balance - January 1	41,484	$ 51,856	41,484	$ 51,856	41,484	$ 51,856
Sale of common shares	6,930	8,662	--	--	--	--
Ending balance - December 31	48,414	$ 60,518	41,484	$ 51,856	41,484	$ 51,856
CAPITAL IN EXCESS OF PAR VALUE						
Beginning balance - January 1		$ 65,785		$ 67,963		$ 70,698
Stock activity under stock plans		(32)		(2,178)		(2,735)
Sale of common shares		145,360		--		--
Ending balance - December 31		$211,113		$ 65,785		$ 67,963
RETAINED EARNINGS						
Beginning balance - January 1		$357,495		$344,254		$353,249
Net (loss) earnings		(1,497)		13,241		12,177
Cash dividends declared		--		--		(21,172)
Ending balance - December 31		$355,998		$357,495		$344,254
TREASURY STOCK						
Beginning balance - January 1	(4,048)	$(92,545)	(4,071)	$(93,448)	(3,817)	$(90,404)
Stock activity under stock plans	502	11,389	49	1,244	154	3,903
Treasury stock repurchases	--	--	--	--	(315)	(5,250)
Rabbi Trust activity	(76)	(1,562)	(26)	(341)	(93)	(1,697)
Ending balance - December 31	(3,622)	$(82,718)	(4,048)	$(92,545)	(4,071)	$(93,448)
DEFERRED COMPENSATION OBLIGATION						
Beginning balance - January 1		$ 6,544		$ --		$ --
Increases to obligation		1,716		6,544		--
Ending balance - December 31		$ 8,260		$ 6,544		$ --
ACCUMULATED OTHER COMPREHENSIVE LOSS						
Beginning balance - January 1		$(84,224)		$(62,351)		$(40,635)
Foreign currency translation adjustments		(37,560)		(20,724)		(20,874)
Retirement plan adjustments		(16,223)		(1,149)		(842)
Hedging transactions		(4,145)		--		--
Ending balance - December 31		$(142,152)		$(84,224)		$(62,351)
TOTAL SHAREHOLDERS' EQUITY						
Beginning balance - January 1	37,436	$304,911	37,413	$308,274	37,667	$344,764
Net changes in shareholders' equity	7,356	106,108	23	(3,363)	(254)	(36,490)
Ending balance - December 31	44,792	$411,019	37,436	$304,911	37,413	$308,274

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Year ended December 31, 2001	2000	1999
Cash flows - Operating activities:			
Net (loss) earnings	$ (1,497)	$ 13,241	$ 12,177
Adjustments to reconcile net (loss) earnings to net cash (used) provided by operating activities:			
Depreciation	48,891	42,676	35,045
Amortization	24,964	14,361	4,554
Amortization of prepaid financing fees and discount	6,736	3,074	236
Premiums and other direct costs of long-term debt repayment	17,320	1,013	--
Write-off of unamortized prepaid financing fees and discount	7,654	2,216	--
(Gain) loss on the sale of fixed assets	(783)	150	440
Loss on impairments of assets	679	3,673	2,834
Change in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	15,604	(70,102)	12,723
Inventories	(54,840)	(1,963)	28,359
Prepaid expenses	(14,686)	7,968	(12,910)
Other assets	(9,557)	(24,781)	2,383
Accounts payable	(3,510)	18,084	(1,919)
Accrued liabilities	(55,861)	(18,215)	6,333
Income taxes	184	(7,639)	(12,395)
Retirement benefits and deferred items	(12,509)	32,753	8,072
Net deferred taxes	(16,718)	1,922	(1,817)
Net cash flows (used) provided by operating activities	(47,929)	18,431	84,115
Cash flows - Investing activities:			
Capital expenditures	(35,225)	(27,819)	(40,535)
Cash received for disposals of assets	8,723	5,404	--
Payments for acquisitions, net of cash acquired	(1,685)	(770,714)	(5,743)
Net cash flows used by investing activities	(28,187)	(793,129)	(46,278)

Cash flows - Financing activities:			
Net borrowings (repayments) under lines of credit	70,000	(91,011)	(13,645)
Payments of long-term debt	(155,580)	(358,488)	(6,370)
Premiums and other direct costs of long-term debt repayment	(17,320)	(1,013)	--
Payment of prepaid financing fees	--	(46,474)	(2,183)
Proceeds from long-term debt	420	1,284,469	18,776
Repurchase of common stock	--	--	(5,250)
Net proceeds (payments) from stock option activity	7,999	615	(529)
Proceeds from issuance of common stock	154,022	--	--
Dividends paid	--	--	(21,172)
Other	--	--	(842)
Net cash flows provided (used) by financing activities	59,541	788,098	(31,215)
Effect of exchange rate changes	(4,233)	(1,522)	(1,087)
Net change in cash and cash equivalents	(20,808)	11,878	5,535
Cash and cash equivalents at beginning of year	42,341	30,463	24,928
Cash and cash equivalents at end of year	$ 21,533	$ 42,341	$ 30,463
Taxes paid	$ 15,444	$ 19,880	$ 19,336
Interest paid	$ 125,190	$ 45,704	$ 16,128

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated. Investments in unconsolidated affiliated companies, which represent all nonmajority ownership interests, are carried on the equity basis, which approximates the Company's equity interest in their underlying net book value.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates made by management include the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowances, restructuring accruals, warranty accruals, legal and environmental accruals, insurance accruals, and retirement benefit obligations.

The Company's estimates for uncollectible accounts receivable are based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends, including changes in the industries served by the Company. Estimates are determined for inventory valuation reserves based upon management's assessment of the market conditions for its products. The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing net operating losses and tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of the tax strategies.

Warranty obligations are contingent upon product failure rates, materials usage or service delivery costs. The Company estimates its warranty provisions based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. Legal and environmental reserves are recorded based upon a case by case analysis of the facts, circumstances and related costs. Insurance reserves are recorded based upon an analysis of the Company's claim loss history and an estimate of incurred but not recorded claims. Retirement benefit obligations are affected by a number of estimates made by management in consultation with independent actuaries, including the discount rate, long-term rate of return on assets, and assumed rate of increase in health care costs.

These estimates and assumptions are based upon the best available information and are subject to change as conditions within and beyond the control of the Company change, including but not limited to economic conditions, the availability of additional information and actual experience rates different from those used in the Company's estimates. Accordingly, actual results could differ from those estimates.

BASIS OF COMPARISON

Certain amounts in 2000 and 1999 have been reclassified to conform with the 2001 presentation.

BUSINESS COMBINATIONS

Business combinations accounted for under the purchase method of accounting include the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition and any excess of purchase price over fair value of the identifiable net assets is recorded as goodwill.

REVENUE RECOGNITION

Revenues and costs are generally recognized based on the shipping terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions required of the Company. Revenue for certain longer-term contracts is recognized based on the percentage of completion method. Shipping and handling costs are reported in cost of sales and amounts billed to customers for these costs are included in revenues. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities.

SHORT-TERM INVESTMENTS

The Company places its temporary cash investments with financial institutions and, by policy, invests in those institutions and instruments that have minimal credit and market risk. These investments, with an original maturity of three months or less when purchased, are classified as cash equivalents. They are highly liquid with principal values not subject to significant risk of change due to interest rate fluctuations.

ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable are stated net of the allowance for doubtful accounts of $20,800 and $18,481 at December 31, 2001 and 2000, respectively.

Credit risk is mitigated by the large number of customers in the Company's customer base across many different geographic regions and an analysis of the creditworthiness of such customers. As of December 31, 2001, the Company does not believe that it had significant concentrations of credit risk.

INVENTORIES

Inventories are stated at the lower-of-cost or market. Cost is determined for U.S. inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT, AND DEPRECIATION

Property, plant and equipment are stated on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets for financial statement purposes and by accelerated methods for income tax purposes. The estimated useful lives of the assets are:

Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 12 years
Furniture and fixtures	3 to 7 years
Capital leases	3 to 25 years

GOODWILL

The excess cost over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over 20-40 years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the related operations over the remaining amortization period, the Company's carrying value of the goodwill will be adjusted accordingly. Accumulated amortization was $47,351 and $29,699 as of December 31, 2001 and 2000, respectively.

INTANGIBLES

Intangible assets consist primarily of engineering drawings, trademarks, assembled workforce and patents which are being amortized over their useful lives generally ranging from 9 to 40 years. Accumulated amortization was $14,521 and $6,976 as of December 31, 2001 and 2000, respectively.

LONG-LIVED ASSETS

The Company periodically reviews the net realizable value of its long-lived assets, including goodwill and other intangible and tangible assets, through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts which are in excess of estimated gross future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. The Company believes no impairment of long-lived assets exists at December 31, 2001.

DERIVATIVES AND HEDGING ACTIVITIES

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company, as part of its risk management program, is also party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions.

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and the corresponding amendments on January 1, 2001. In accordance with the transition provisions of SFAS No. 133, the Company recorded a cumulative-effect adjustment in other comprehensive income as of January 1, 2001 of $0.8 million, net of deferred tax of $0.5 million, representing the current fair value of hedging instruments. Of the gross asset amount of $1.3 million, $3.4 million related to foreign currency forward contracts, offset by a liability of $2.1 million related to interest rate swap agreements.

Beginning January 1, 2001, all derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (2) a foreign currency fair value or cash flow hedge (a "foreign currency" hedge). Changes in the fair value of a derivative that is highly effective and is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a derivative that is highly effective, designated and qualifies as a foreign currency hedge are recorded in other comprehensive income, since it satisfies the criteria for a cash flow hedge. As of December 31, 2001, all hedges outstanding were highly effective.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the inception of the hedge and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedge item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remaining in accumulated other comprehensive income is reclassified into earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings.

Prior to 2001, gains and losses on forward contracts qualifying as hedges were deferred and included in the measurement of the related foreign currency transaction. Gains and losses on hedges of existing assets or liabilities were included in the carrying amounts of those assets or liabilities and were ultimately recognized in income as part of those carrying amounts. Gains and losses related to hedges of anticipated transactions were recognized in income as the transactions occurred. Gains and losses on swap agreements were recognized in interest expense as they were realized.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments approximate fair value at December 31, 2001, except for long-term debt, which had a carrying value of $1,041 million and an estimated fair value of $1,077 million. The carrying amounts of all of the Company's financial instruments approximate fair value at December 31, 2000.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign affiliates, other than those located in highly inflationary countries, if any, are translated at current exchange rates, while income and expenses are translated at average rates for the period. For entities in highly inflationary countries, a combination of current and historical rates is used to determine currency gains and losses resulting from financial statement translation and those resulting from transactions. Translation gains and losses are reported as a component of accumulated other comprehensive loss, except for those associated with highly inflationary countries, which are reported directly in the consolidated statements of operations.

RESEARCH AND DEVELOPMENT EXPENSE

Research and development costs are charged to expense when incurred. Research and development costs were $23.4 million in 2001, $24.8 million in 2000 and $25.6 million in 1999.

EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

Year ended December 31,	2001	2000	1999
Earnings before extraordinary items	$ 16,354	$ 15,308	$ 12,177
Extraordinary items, net of income taxes	(17,851)	(2,067)	--
Net (loss) earnings	$ (1,497)	$ 13,241	$ 12,177
Denominator for basic earnings per share - weighted average shares	38,719	37,823	37,807
Effect of potentially dilutive securities	611	19	49
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	39,330	37,842	37,856
Earnings per share - basic			
Before extraordinary items	$ 0.42	$ 0.40	$ 0.32
Extraordinary items	(0.46)	(0.05)	--
Net (loss) earnings per share	$ (0.04)	$ 0.35	$ 0.32
Earnings per share - diluted			
Before extraordinary items	$ 0.42	$ 0.40	$ 0.32
Extraordinary items	(0.46)	(0.05)	--
Net (loss) earnings per share	$ (0.04)	$ 0.35	$ 0.32

Options to purchase 3,402,598, 3,413,411, and 2,521,623 shares of common stock were outstanding at December 31, 2001, 2000, and 1999, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common stock.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

STOCK-BASED COMPENSATION

The Company accounts for stock options granted to employees and directors using the intrinsic-value method. Under the intrinsic-value method, no compensation expense is recorded if the exercise price of the Company's stock options is equal to or greater than the market price of the underlying stock on the date of grant.

ACCOUNTING DEVELOPMENTS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and is effective for the Company on January 1, 2002. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period for intangible assets will no longer be limited to 40 years.

The Company is currently assessing the impact of SFAS No. 141 and No. 142 and has not yet determined the full effects these statements will have on its consolidated financial position or results of operations. However, the Company has estimated that the reduction in annual amortization expense will total approximately $19 million, or approximately $14 million or $0.30 per share after-tax.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for the Company on January 1, 2003. The Company is currently assessing the impact of SFAS No. 143 and has not yet determined the effects, if any, it will have on its consolidated financial position or results of operations.

NOTE 2: ACQUISITIONS

In January 2000, the Company acquired Innovative Valve Technologies, Inc. (Invatec), a company principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The transaction was accounted for under the purchase method of accounting and was financed by utilizing funds from the Company's working capital. The purchase price was approximately $16.6 million in cash for shares tendered. Net debt of $87.7 million was simultaneously paid off through borrowings under the Company's revolving credit agreement.

In August 2000, the Company completed the acquisition of Ingersoll-Dresser Pump Company (IDP), a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. The transaction, which was accounted for as a purchase, was financed with a combination of senior secured term loans and issuance of senior subordinated notes. Upon closing of the transaction, the existing Company debt was also refinanced into the new senior secured credit facility. (See Note 7, Debt and Lease Obligations, for information on the debt incurred to finance the acquisition).

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of the acquisition. These allocations include $137.6 million for intangibles and $401.3 million recorded as goodwill.

The operating results of these acquired businesses have been included in the consolidated statements of operations from the dates of acquisition.

The table below reflects unaudited pro forma results of the Company, Invatec and IDP as if the acquisitions had taken place at the beginning of fiscal years 2000 and 1999, including purchase accounting adjustments and estimated financing costs.

PRO FORMA

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Year ended December 31,	2000	1999
Net sales	$1,960,121	$2,060,653
Operating income before special items	147,418	128,576
Net loss before extraordinary items	(24,281)	(22,657)
Net loss	(26,348)	(22,657)
Net loss per share		
(basic and diluted):		
Before extraordinary items	$ (0.64)	$ (0.60)
Net loss	(0.70)	(0.60)

The pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions or events occurred on the dates specified, or to project the Company's results of operations for any future period. The pro forma results in 2000 included integration expense of $35.2 million and restructuring expense of $19.4 million related to integrating the IDP business into Flowserve.

In October 1999, the Company purchased certain assets and liabilities of Honeywell's industrial control-valve product line and production equipment. The Company completed the phased move of this operation to its existing control-valve manufacturing facilities in Europe in March of 2000. This business generated revenues of about $7 million in 1999.

NOTE 3: RESTRUCTURING AND ACQUISITION RELATED CHARGES

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, have resulted in the net reduction of approximately 1,100 positions, which was consistent with the plan. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities and service and repair centers, and a reduction of sales and sales support personnel.

The Company currently estimates that the costs associated with the restructuring portion of the program will be approximately $65 million. The Company had originally estimated these costs to be approximately $61 million. The changes from the original estimate are primarily due to updated actuarial information for post-retirement and pension expense relating to a plant closure. This increase was offset by a non-cash reclassification from the restructuring accrual to retirement benefit obligations and other liabilities which resulted in a net reduction to the accrual of $8.8 million in 2000 and $2.5 million during 2001. In the fourth quarter of 2001, the Company reduced the restructuring reserve by $2.9 million due to lower than previously estimated costs related to employee severance and relocation expenses. The $2.9 million reduction includes $1.2 million related to Flowserve operations that was recorded as a reduction of restructuring expense, while the remaining $1.7 million related to IDP operations and was recorded as a reduction of goodwill.

The Company's current estimate of $65 million in restructuring cost is comprised of approximately $42 million which relates to the IDP operations acquired, of which $26 million has been capitalized in goodwill as part of the purchase price of IDP ($42 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $23 million relates to the Flowserve operations and was recorded as restructuring expense. This expense was offset by a reversal of a restructuring charge of $5.3 million recorded in 1999 for the Company's Tulsa facility. As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. This facility had been previously targeted for closure in 1999.

During 2001 and 2000, the Company also incurred $63.0 million and $35.2 million, respectively, in integration costs in conjunction with this program. The total costs of integrating IDP were $158 million, net of the Tulsa reversal and excluding capital expenditures associated with the integration. The balance of the $158 million in costs was recorded as integration expense as incurred. The Company has substantially completed its integration activities as of December 31, 2001.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	$ 2,402	$ 3,119	$ 5,521

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of several facilities and a reduction in workforce at those and other locations.

As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. Since the facility had been previously targeted for closure in 1999, this resulted in a non-cash reduction of the existing 1999 restructuring reserve of $5.3 million in 2000.

The 1999 restructuring program resulted in a net reduction of approximately 261 employees at a cost of $8.5 million. In addition, exit costs associated with the facilities closings were $1.9 million.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$ 12,900	$ 2,960	$ 15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	12,798	2,960	15,758
Cash expenditures	(6,766)	(1,932)	(8,698)
Non-cash reduction	(4,364)	(1,028)	(5,392)
Balance at December 31, 2000	1,668	--	1,668
Cash expenditures	(1,668)	--	(1,668)
Balance at December 31, 2001	$ --	$ --	$ --

NOTE 4: STOCK PLANS

The Company maintains shareholder-approved stock option plans to purchase shares of the Company's common stock. At December 31, 2001, approximately 413,783 options were available for grant. Options under these plans have been granted to officers, other employees and directors to purchase shares of common stock at or above the fair market value at the date of grant. Generally, these options, whether granted from the current or prior plans, become exercisable over staggered periods, but expire after 10 years from the date of the grant. The plan provides that any option may include a stock appreciation right; however, none has been granted since 1989. The aggregate number of exercisable shares was 2,065,006 at December 31, 2001, 2,195,599 at December 31, 2000, and 2,117,816 at December 31, 1999.

Information concerning stock options issued to officers, other employees and directors is presented in the following table:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option:						
Outstanding at beginning of year	3,778,380	$ 21.29	3,672,327	$ 21.56	2,689,420	$ 23.33
Granted	298,017	26.82	337,700	17.38	1,249,500	17.96
Exercised	(470,976)	19.05	(71,036)	14.40	(31,599)	11.93
Cancelled	(203,103)	24.47	(160,611)	22.26	(234,994)	24.31
Outstanding at end of year	3,402,318	$ 21.86	3,778,380	$ 21.29	3,672,327	$ 21.56

The weighted average remaining contractual life of options outstanding at December 31, 2001 is 6.5 years. Additional information relating to the ranges of options outstanding at December 31, 2001, is as follows:

Range of Exercise Prices Per Share	Weighted Average Remaining Contractual Life	Options Outstanding: Number Outstanding	Options Outstanding: Weighted Average Exercise Price Per Share	Options Exercisable: Number Exercisable	Options Exercisable: Weighted Average Exercise Price Per Share
$ 0.83-16.00	5.5	87,382	$13.49	64,049	$13.62
$16.01-18.49	7.8	657,354	$17.31	341,975	$17.17
$18.50-19.00	7.2	1,208,737	$18.54	508,737	$18.50
$19.01-27.00	4.8	673,041	$24.15	617,941	$24.09
$27.01-39.20	5.9	775,804	$29.86	532,304	$31.11
		3,402,318		2,065,006	

Disclosure of pro forma information regarding net earnings and earnings per share as if the Company had accounted for its stock options granted subsequent to December 31, 1994, under a fair value method is required. The "fair value" for these options at the date of grant was estimated using a binomial option pricing model (a modified Black-Scholes model).

The assumptions used in this valuation are as follows:

For the year ended December 31,	2001	2000	1999
Risk-free interest rate	5.5%	5.4%	6.1%
Dividend yield	--	--	3.3%
Stock volatility	33.6%	32.9%	32.5%
Average expected life (years)	6.7	7.8	9.1

The options granted had a weighted average "fair value" per share on date of grant of $12.40 in 2001, $8.63 in 2000, and $5.75 in 1999. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting periods.

The Company's pro forma information is as follows:

For the year ended December 31,	2001	2000	1999
Net (loss) earnings			
As reported	$ (1,497)	$ 13,241	$ 12,177
Pro forma	(4,368)	9,423	8,671
Earnings (loss) per share (diluted and basic):			
As reported	$ (0.04)	$ 0.35	$ 0.32
Pro forma	(0.11)	0.25	0.23

Because the determination of the fair value of all options granted includes an expected volatility factor and, because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects for future years.

The Company also has a restricted stock plan that authorizes the grant of up to 250,000 shares of the Company's common stock. In general, the shares cannot be transferred for a period of at least one but not more than 10 years and are subject to forfeiture during the restriction period. The intrinsic value of the shares is amortized to compensation expense over the periods in which the restrictions lapse. Restricted stock grants were 27,700 shares in 2001, 26,645 shares in 2000, and 181,213 shares in 1999. The weighted average intrinsic value of the restricted stock grants, based on the stock price at date of grant, was $25.49 in 2001, $13.42 in 2000, and $18.66 in 1999. Total compensation expense recognized in the income statement for all stock based awards was $1,320 in 2001, $1,041 in 2000, and $878 in 1999.

NOTE 5: DERIVATIVES AND HEDGING ACTIVITIES

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. As of December 31, 2001 and 2000, the Company had approximately $69.4 million and $103.9 million, respectively, of notional amount in outstanding contracts with third parties. As of December 31, 2001, the maximum length of any forward contract currently in place is about 17 months.

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. As of December 31, 2001 and 2000, the Company had $150 million and $75 million, respectively, of notional amount in outstanding interest rate swaps with third parties. As of December 31, 2001, the maximum length of any interest rate contract currently in place is about 5 years.

At December 31, 2001, the fair value of the hedging instruments is a liability of $6.5 million.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it expects all counterparties to meet their obligations given their creditworthiness.

Hedging related transactions recorded to other comprehensive income (expense) during 2001 were:

	OTHER COMPREHENSIVE INCOME (EXPENSE)
Record fair market value of hedges, as of January 1, 2001, net of deferred taxes of $472	$ 840
Reclassify to earnings amount necessary to offset floating interest rate gains during 2001, net of deferred taxes of $684	1,205
Reclassify to earnings amount necessary to offset foreign currency gains during 2001, net of deferred taxes of $377	660
Change in fair market value of swap agreements as of December 31, 2001, net of deferred taxes of $2,201	(3,790)
Change in fair market value of foreign currency forward contracts as of December 31, 2001, net of deferred taxes of $1,779	(3,060)
YEAR ENDED DECEMBER 31, 2001	$(4,145)

The Company expects that within the next twelve months it will reclassify as expense $2.6 million, net of deferred tax, of the amount recorded in accumulated other comprehensive loss for contracts that will settle during the period.

NOTE 6: DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

INVENTORIES

Inventories and the method of determining cost were:

December 31,	2001	2000
Raw materials	$ 62,818	$ 59,403
Work in process	146,494	119,868
Finished goods	258,856	239,884
Less: Progress billings	(43,655)	(38,605)
Less: Excess and obsolete reserve	(42,986)	(37,114)
	381,527	343,436
LIFO reserve	(33,936)	(37,478)
Net inventory	$347,591	$305,958
Percent of inventory accounted for by LIFO	62%	67%
Percent of inventory accounted for by FIFO	38%	33%

The decline in the LIFO reserve in 2001 primarily reflects the impact of deflation in the materials component of the Company's inventory. Therefore, the impact of this reduction in the reserve on 2001 earnings was insignificant.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were:

December 31,	2001	2000
Land	$ 46,655	$ 48,434
Buildings, improvements, furniture and fixtures	344,682	331,293
Machinery, equipment, capital leases and construction in progress	266,094	275,967
	657,431	655,694
Less: Accumulated depreciation	(295,043)	(265,134)
	362,388	390,560
Assets held for sale	--	14,852
Net property, plant and equipment	$362,388	$405,412

Certain fixed assets were held for sale at December 31, 2000 associated with the Company's integration of IDP. Proceeds of $8.7 million were received in 2001 in conjunction with the sale of these assets. The differential between the net carrying value and realizable value for these IDP fixed assets was adjusted to goodwill during 2001 as the Company finalized its allocation of the IDP purchase price. The differential for Flowserve assets was recorded as a loss on sale of fixed assets and recorded in integration expense.

OTHER ASSETS

Other assets were:

December 31,	2001	2000
Deferred tax assets	$ 61,205	$ 66,977
Investments in unconsolidated subsidiaries	18,713	20,377
Prepaid financing fees	31,787	44,331
Deferred compensation funding	16,250	17,743
Other	17,239	11,480
Total	$145,194	$160,908

ACCRUED LIABILITIES

Accrued liabilities were:

December 31,	2001	2000
Wages, compensation, and other benefits	$ 84,161	$100,774
Accrued restructuring	5,521	32,552
Accrued interest	17,199	29,489
Accrued commissions and royalties	3,372	6,916
Progress billings in excess of accumulated costs	13,747	9,529
Other	69,768	64,293
Total	$193,768	$243,553

RETIREMENT BENEFITS AND DEFERRED ITEMS

Retirement benefits and deferred items were:

December 31,	2001	2000
Retirement benefits	$146,761	$122,153
Deferred taxes	36,639	78,379
Deferred compensation	10,752	12,977
Other	33,811	46,598
Total	$227,963	$260,107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7: DEBT AND LEASE OBLIGATIONS

Long-term debt, including capital lease obligations, consisted of:

December 31,	2001	2000
Term Loan Tranche A, interest rate of 4.69%, 4.88% and 5.06% in 2001 and 9.31% and 9.50% in 2000	$ 257,078	$ 275,000
Term Loan Tranche B, interest rate of 5.63% and 5.81% in 2001 and 10.06% and 10.25% in 2000	469,842	475,000
Senior Subordinated Notes, interest rate of 12.25%	243,370	379,021
Revolving credit agreement, interest rate of 4.69% in 2001	70,000	--
Capital lease obligations and other	455	185
	1,040,745	1,129,206
Less amounts due within one year	44,523	18,098
Total long-term debt due after one year	$ 996,222	$ 1,111,108

Maturities of long-term debt, including capital lease obligations, for the next five years are:

2002	$ 44,523
2003	59,385
2004	63,307
2005	67,262
2006	175,860
Thereafter	630,408
Total	$1,040,745

In August 2000, in connection with the acquisition of IDP, the Company entered into a senior secured credit facility (the "Credit Facility") which includes a $275 million term loan due June 2006, a $475 million term loan due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The Credit Facility is secured by substantially all domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. The term loans bear interest based on LIBOR plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. The credit spread can increase or decrease based on the Company's leverage ratio as defined. As of December 31, 2001, $70.0 million of the revolving credit facility was drawn and $726.9 million of the term loans were outstanding.

The revolving credit facility also allows the Company to issue up to $200 million in letters of credit. As of December 31, 2001, $27.4 million of letters of credit had been issued under the facility. As letters of credit issued under the facility reduce availability, the Company had $202.6 million remaining in unused borrowing capacity at December 31, 2001 under the revolving credit facility.

Quarterly principal payments of the term loans began in June 2001 and amounts outstanding at December 31, 2001 are summarized as follows: $44.5 million in 2002, $59.4 million in 2003, $63.3 million in 2004, $67.3 million in 2005, $105.9 million in 2006, $257.5 million in 2007 and $129.1 million in 2008. Effective December 31, 2001, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Facility as well as the Company's indenture, to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2002 under this provision.

The Company also issued 10 year senior subordinated notes (the "Notes") on August 8, 2000 in a U.S. dollar tranche and a Euro tranche. Proceeds of $285.9 million from the dollar tranche ($290.0 million face amount less discount of $4.1 million) and EUR 98.6 million from the Euro tranche (EUR 100.0 million face amount less discount of EUR 1.4 million), were also used in completing the IDP acquisition. The Notes, issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal payments prior to maturity in August 2010. Beginning in August 2005, the Notes become callable at a fixed redemption price. The Notes can also be redeemed by the Company under certain circumstances and have mandatory redemption features under certain circumstances, including a change in control as defined. Interest on the Notes is payable semi-annually in February and August.

During 2001, the Company completed an offering of approximately 6.9 million shares of its common stock for net proceeds of approximately $154 million. These proceeds were used to prepay $101.5 million of the U.S. dollar tranche, EUR 35 million ($31 million) of the Euro tranche of the senior subordinated notes, and to pay associated prepayment premiums and other direct costs. The Company recorded an extraordinary item of $17.9 million, which is net of $7.1 million of tax, comprised of the prepayment premiums, other direct costs, and the write-off of unamortized prepaid financing fees and discount for the portion of the Notes that was prepaid.

The provisions of the Credit Facility require the Company to meet or exceed specified defined financial covenants. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the Credit Facility and the Notes contain limitations or restrictions on indebtedness, liens, sale and leaseback transactions, asset sales, payment of dividends, capital expenditures, and other customary restrictions. As of December 31, 2001, the Company was in compliance with these covenants.

In 2000, the Company recorded an extraordinary item of $2.1 million, which is net of tax of $1.2 million, for prepayment premiums and the write-off of prepaid financing fees associated with the prepayment of certain long-term debt.

The Company has noncancelable operating leases for certain offices, service and quick response centers, certain manufacturing and operations facilities, and machinery, equipment and automobiles. Rental expense relating to operating leases was $14,041 in 2001, $13,020 in 2000, and $11,648 in 1999.

The future minimum lease payments due under noncancelable operating leases are:

2002	$12,265
2003	9,138
2004	6,926
2005	5,697
2006	3,435
Thereafter	5,188
Total	$42,649

NOTE 8: GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

In connection with the IDP acquisition and as part of the related financing, the Company and newly formed Dutch subsidiary, Flowserve Finance B.V., issued the Notes (comprised of the U.S. dollar Notes and the Euro Notes), in private placements pursuant to Rule 144A and Regulation S. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries and, in the case of the Euro Notes, by the Company.

The following consolidating financial information presents:

(1) Consolidating balance sheets as of December 31, 2001 and 2000 and the related statements of operations and cash flows for the years then ended of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

(2) Consolidating statements of operations and cash flows for the year ended December 31, 1999, of (a) Flowserve Corporation, the parent, (b) the guarantor subsidiaries, (c) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

(3) Elimination entries necessary to consolidate Flowserve Corporation, the parent, with Flowserve Finance, B.V., guarantor and nonguarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor subsidiaries and the nonguarantor subsidiaries are not presented because management believes such financial statements would not be meaningful to investors.

Effective January 1, 2001, the Company effected a domestic legal reorganization. This primarily resulted in a reclassification between the parent and guarantor subsidiaries.

CONSOLIDATING STATEMENT OF OPERATIONS

	Year ended December 31, 2001					
(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL

Sales	$ --	$ --	$ 1,176,386	$ 851,043	$ (109,922)	$ 1,917,507
Cost of sales	--	--	826,849	586,028	(109,922)	1,302,955
Gross profit	--	--	349,537	265,015	--	614,552
Selling, general and administrative expense	--	--	271,915	138,648	--	410,563
Restructuring expenses	--	--	(1,108)	(100)	--	(1,208)
Integration expenses	--	--	50,187	12,856	--	63,043
Operating income	--	--	28,543	113,611	--	142,154
Net interest expense	19,269	2,174	86,731	9,898	--	118,072
Other expense (income), net	--	2	(29,046)	27,497	--	(1,547)
Equity in (earnings) loss of subsidiaries	(22,814)	--	--	--	22,814	-
Earnings (loss) before income taxes	3,545	(2,176)	(29,142)	76,216	(22,814)	25,629
(Benefit) provision for income taxes	(7,130)	--	(10,782)	27,187	--	9,275
Earnings (loss) before extraordinary items	10,675	(2,176)	(18,360)	49,029	(22,814)	16,354
Extraordinary items, net of income taxes	(12,172)	(5,679)	--	--	--	(17,851)
Net (loss) earnings	$ (1,497)	$(7,855)	$ (18,360)	$ 49,029	$ (22,814)	$ (1,497)

CONSOLIDATING STATEMENT OF OPERATIONS

	Year ended December 31, 2000					
(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$151,825	$ --	$ 857,475	$ 611,117	$ (82,124)	$ 1,538,293
Cost of sales	116,703	--	582,238	414,564	(82,124)	1,031,381
Gross profit	35,122	--	275,237	196,553	--	506,912
Selling, general and administrative expense	54,899	--	190,989	114,418	--	360,306
Restructuring expenses	9,064	--	2,564	7,736	--	19,364
Integration expenses	6,346	--	16,822	12,043	--	35,211
Operating income	(35,187)	--	64,862	62,356	--	92,031
Net interest expense	26,980	343	34,799	5,862	2,337	70,321
Other (income) expense, net	(2,918)	--	(36,881)	40,662	(2,337)	(1,474)
Equity in (earnings) loss of subsidiaries	(51,709)	--	--	--	51,709	--
(Loss) earnings before income taxes	(7,540)	(343)	66,944	15,832	(51,709)	23,184
(Benefit) provision for income taxes	(21,910)	--	26,618	3,168	--	7,876
Earnings (loss) before extraordinary items	14,370	(343)	40,326	12,664	(51,709)	15,308
Extraordinary items, net of income taxes	(1,129)	--	(938)	--	--	(2,067)
Net earnings (loss)	$ 13,241	$(343)	$ 39,388	$ 12,664	$(51,709)	$ 13,241

CONSOLIDATING STATEMENT OF OPERATIONS

	Year ended December 31, 1999				
(Amounts in thousands)	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$140,710	$519,035	$ 472,563	$ (71,036)	$ 1,061,272
Cost of sales	72,042	380,302	316,620	(71,036)	697,928
Gross profit	68,668	138,733	155,943	--	363,344
Selling, general and administrative expense	66,460	137,963	97,106	--	301,529
Restructuring expenses	--	13,674	2,186	--	15,860
Integration expenses	--	13,514	693	--	14,207
Operating income	2,208	(26,418)	55,958	--	31,748
Net interest expense	2,007	11,939	1,437	(706)	14,677
Other (income) expense, net	(1,878)	(10,584)	10,582	706	(1,174)
Equity in (earnings) loss of subsidiaries	(10,915)	--	--	10,915	--
Earnings (loss) before income taxes	12,994	(27,773)	43,939	(10,915)	18,245
Provision (benefit) for income taxes	817	(8,027)	13,278	--	6,068
Net earnings (loss)	$ 12,177	$(19,746)	$ 30,661	$ (10,915)	$ 12,177

CONSOLIDATING BALANCE SHEET

	December 31, 2001					
(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 21,533	$ --	$ 21,533
Intercompany receivables	82,513	--	62,875	77,513	(222,901)	--
Accounts receivable, net	--	--	231,484	224,377	--	455,861
Inventories	--	--	201,707	145,884	--	347,591
Current deferred tax asset	--	--	33,727	2,589	--	36,316
Prepaid expenses	--	--	22,981	13,857	--	36,838
Total current assets	82,513	--	552,774	485,753	(222,901)	898,139
Property, plant and equipment, net	--	--	201,595	160,793	--	362,388
Investment in subsidiaries	399,026	--	464,633	--	(863,659)	--
Intercompany receivables	893,415	85,254	6,198	34,003	(1,018,870)	--
Goodwill, net	--	--	414,465	100,710	--	515,175
Other intangible assets, net	--	--	115,123	15,956	--	131,079
Other assets	29,094	2,693	100,320	13,087	--	145,194
Total assets	$ 1,404,048	$ 87,947	$ 1,855,108	$ 810,302	$ (2,105,430)	$ 2,051,975
Current liabilities:						
Accounts payable	$ 145	$ --	$ 85,861	$ 92,474	$ --	$ 178,480
Intercompany payables	4,240	(1,191)	45,004	174,848	(222,901)	--
Income taxes	(1,257)	--	(15,606)	16,863	--	--
Accrued liabilities	15,034	2,665	107,191	68,878	--	193,768
Long-term debt due within one year	44,521	--	2	--	--	44,523
Total current liabilities	62,683	1,474	222,452	353,063	(222,901)	416,771
Long-term debt due after one year	938,606	57,163	420	33	--	996,222
Intercompany payables	--	37,115	930,985	50,770	(1,018,870)	--
Retirement benefits and deferred items	--	--	172,483	55,480	--	227,963
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common shares	60,518	--	2	182,331	(182,333)	60,518
Capital in excess of par value	211,113	--	313,221	72,991	(386,212)	211,113
Retained earnings (deficit)	355,998	(8,198)	237,279	162,241	(391,322)	355,998
	627,629	(8,198)	550,502	417,563	(959,867)	627,629
Treasury stock, at cost	(82,718)	--	--	--	--	(82,718)
Accumulated other comprehensive (loss) income	(142,152)	393	(29,994)	(66,607)	96,208	(142,152)
Deferred compensation obligation	--	--	8,260	--	--	8,260
Total shareholders' equity	402,759	(7,805)	528,768	350,956	(863,659)	411,019
Total liabilities and shareholders' equity	$ 1,404,048	$ 87,947	$ 1,855,108	$ 810,302	$ (2,105,430)	$ 2,051,975

CONSOLIDATING BALANCE SHEET

	December 31, 2000					
(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 50,239	$ (7,898)	$ 42,341
Intercompany receivables	23,530	--	33,252	104,836	(161,618)	--
Accounts receivable, net	20,767	--	224,746	241,761	--	487,274
Inventories	10,432	--	181,258	114,268	--	305,958
Current deferred tax asset	--	--	38,765	961	--	39,726
Prepaid expenses	6,261	--	12,216	4,276	--	22,753
Total current assets	60,990	--	490,237	516,341	(169,516)	898,052
Property, plant and equipment, net	34,332	--	189,978	181,102	--	405,412
Investment in subsidiaries	784,893	--	443,092	--	(1,227,985)	--
Intercompany receivables	501,286	90,112	10,849	21,598	(623,845)	--
Goodwill, net	7,814	--	452,118	46,644	--	506,576
Other intangible assets, net	--	--	121,994	17,201	--	139,195
Other assets	52,991	4,865	97,861	5,191	--	160,908
Total assets	$ 1,442,306	$ 94,977	$ 1,806,129	$ 788,077	$ (2,021,346)	$ 2,110,143
Current liabilities:						
Accounts payable	$ 5,588	$ 1	$ 76,910	$ 97,766	$ (7,899)	$ 172,366
Intercompany payables	33,973	2,279	20,704	104,658	(161,614)	--
Income taxes	4,679	--	2,928	(7,607)	--	--
Accrued liabilities	13,443	111	120,729	110,202	(932)	243,553
Long-term debt due within one year	18,000	--	90	8	--	18,098
Total current liabilities	75,683	2,391	221,361	305,027	(170,445)	434,017
Long-term debt due after one year	1,018,063	92,958	2	85	--	1,111,108
Intercompany payables	131	--	468,840	154,873	(623,844)	--
Retirement benefits and deferred items	50,062	--	166,187	42,926	932	260,107
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common shares	51,856	--	2	197,582	(197,584)	51,856
Capital in excess of par value	65,785	--	676,035	89,489	(765,524)	65,785

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Retained earnings	357,495	(343)	285,998	138,332	(423,987)	357,495
	475,136	(343)	962,035	425,403	(1,387,095)	475,136
Treasury stock, at cost	(92,545)	--	(613)	2,246	(1,633)	(92,545)
Accumulated other comprehensive (loss) income	(84,224)	(29)	(18,227)	(142,483)	160,739	(84,224)
Deferred compensation obligation	--	--	6,544	--	--	6,544
Total shareholders' equity	298,367	(372)	949,739	285,166	(1,227,989)	304,911
Total liabilities and shareholders' equity	$ 1,442,306	$ 94,977	$ 1,806,129	$ 788,077	$ (2,021,346)	$ 2,110,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

	Year ended December 31, 2001					
(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Cash flows - Operating activities:						
Net (loss) earnings	$ (1,497)	$ (7,855)	$ (18,360)	$ 49,029	$ (22,814)	$ (1,497)
Adjustments to reconcile net (loss) earnings to net cash (used) provided by operating activities:						
Depreciation	--	--	28,703	20,188	--	48,891
Amortization	--	--	21,365	3,599	--	24,964
Amortization of prepaid financing fees and discount	5,857	879	--	--	--	6,736
Premiums and other direct costs of long-term debt repayment	13,476	3,844	--	--	--	17,320
Write-off of unamortized prepaid financing fees and discount	5,844	1,810	--	--	--	7,654
Loss (gain) on the sale of fixed assets	--	--	114	(897)	--	(783)
Loss on impairment of assets	--	--	679	--	--	679
Change in assets and liabilities, net of effects of acquisitions and dispositions:						
Accounts receivable	12	--	12,462	3,130	--	15,604
Inventories	--	--	(13,765)	(41,075)	--	(54,840)
Intercompany receivable and payable	(136,416)	36,017	(15,476)	62,487	53,388	--
Prepaid expenses	--	--	6,945	(21,631)	--	(14,686)
Other assets	(859)	(48)	28,760	(37,410)	--	(9,557)
Accounts payable	(1,466)	--	13,277	(15,321)	--	(3,510)
Accrued liabilities	13,482	2,560	(23,728)	(48,175)	--	(55,861)
Income taxes	(619)	--	(20,193)	20,996	--	184
Retirement benefits and deferred items	8,221	--	(37,734)	17,004	--	(12,509)
Net deferred taxes	--	--	(23,236)	6,518	--	(16,718)
Net cash flows (used) provided by operating activities	(93,965)	37,207	(40,187)	18,442	30,574	(47,929)
Cash flows - Investing activities:						
Capital expenditures	--	--	(20,537)	(14,688)	--	(35,225)
Cash received for disposals of assets	--	--	5,855	2,868	--	8,723
Payments for acquisitions	--	--	(1,685)	--	--	(1,685)
Net cash flows used by investing activities	--	--	(16,367)	(11,820)	--	(28,187)
Cash flows - Financing activities:						
Net borrowings under lines of credit	70,000	--	--	--	--	70,000
Payment of long-term debt	(124,580)	(31,000)	--	--	--	(155,580)
Premiums and other direct costs of long-term debt repayment	(13,476)	(3,844)	--	--	--	(17,320)
Proceeds from long-term debt	--	--	420	--	--	420
Proceeds from issuance of common stock	154,022	--	--	--	--	154,022
Other	7,999	(2,363)	56,141	(31,102)	(22,676)	7,999
Net cash flows provided (used) by financing activities	93,965	(37,207)	56,561	(31,102)	(22,676)	59,541
Effect of exchange rate changes	--	--	(7)	(4,226)	--	(4,233)
Net change in cash and cash equivalents	--	--	--	(28,706)	7,898	(20,808)
Cash and cash equivalents at beginning of year	--	--	--	50,239	(7,898)	42,341
Cash and cash equivalents at end of year	$ --	$ --	$ --	$ 21,533	$ --	$ 21,533

CONSOLIDATING STATEMENTS OF CASH FLOWS

CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	Year ended December 31, 2000					
Cash flows - Operating activities:						
Net earnings (loss)	$ 13,241	$ (343)	$ 39,388	$ 12,664	$ (51,709)	$ 13,241
Adjustments to reconcile net earnings (loss) to net cash (used) provided by operating activities:						
Depreciation	6,221	--	25,778	10,677	--	42,676
Amortization	461	--	11,088	2,812	--	14,361
Amortization of prepaid financing fees and discount	2,773	301	--	--	--	3,074
Premiums and other direct costs of long-term debt repayment	--	--	1,013	--	--	1,013
Write-off of unamortized prepaid financing fees and discount	--	--	2,216	--	--	2,216
Loss (gain) on the sale of fixed assets	--	--	(260)	410	--	150
Loss on impairment of facilities and equipment	--	--	3,673	--	--	3,673
Change in assets and liabilities, net of effects of acquisitions and dispositions:						
Accounts receivable	(4,065)	--	(32,305)	(33,732)	--	(70,102)
Inventories	7,380	--	(16,558)	7,215	--	(1,963)
Intercompany receivable and payable	(589,288)	(87,832)	560,455	117,050	(385)	--
Prepaid expenses	(403)	--	(2,729)	15,737	(4,637)	7,968
Other assets	(17,289)	(354)	(7,888)	750	--	(24,781)
Accounts payable	(6,891)	--	6,840	21,831	(3,696)	18,084
Accrued liabilities	4,544	111	(19,280)	(2,658)	(932)	(18,215)
Income taxes	173	--	665	(9,696)	1,219	(7,639)
Retirement benefits and deferred items	15,222	--	21,042	(4,443)	932	32,753
Net deferred taxes	(6,533)	--	10,214	(1,759)	--	1,922
Net cash flows (used) provided by operating activities	(574,454)	(88,117)	603,352	136,858	(59,208)	18,431
Cash flows - Investing activities:						
Capital expenditures	(7,330)	--	(9,300)	(11,189)	--	(27,819)
Cash received for disposals of assets	--	--	5,368	36	--	5,404
Payments for acquisitions, net of cash acquired	(387,793)	--	(241,019)	(699,357)	557,455	(770,714)
Net cash flows (used) provided by investing activities	(395,123)	--	(244,951)	(710,510)	557,455	(793,129)
Cash flows - Financing activities:						
Net repayments under lines of credit	--	--	(88,903)	(2,108)	--	(91,011)
Payment of long-term debt	(161,663)	--	(189,997)	(6,828)	--	(358,488)
Premiums and other direct costs of long-term debt repayment	--	--	(1,013)	--	--	(1,013)
Payment of prepaid financing fees	(41,663)	(4,811)	--	--	--	(46,474)
Proceeds from long-term debt	1,191,511	92,958	--	--	--	1,284,469
Proceeds from issuance of common stock	615	--	--	--	--	615
Other	(19,223)	--	(79,377)	604,353	(505,753)	--
Net cash flows provided (used) by financing activities	969,577	88,147	(359,290)	595,417	(505,753)	788,098
Effect of exchange rate changes	--	(30)	--	(1,492)	--	(1,522)
Net change in cash and cash equivalents	--	--	(889)	20,273	(7,506)	11,878
Cash and cash equivalents at beginning of year	--	--	889	29,966	(392)	30,463
Cash and cash equivalents at end of year	$ --	$ --	$ --	$ 50,239	$ (7,898)	$ 42,341

CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	Year ended December 31, 1999				
Cash flows - Operating activities:					
Net earnings (loss)	$ 12,177	$ (19,746)	$ 30,661	$ (10,915)	$ 12,177
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:					
Depreciation	2,771	18,003	14,271	--	35,045
Amortization	450	1,484	2,620	--	4,554
Amortization of prepaid financing					

fees and discount	236	--	--	--	236
Loss (gain) on the sale of fixed assets	232	294	(86)	--	440
Loss on impairment of facilities and equipment	2,834	--	--	--	2,834
Change in assets and liabilities, net of effects of acquisitions and dispositions:					
Accounts receivable	(2,159)	14,459	423	--	12,723
Inventories	13,276	18,047	(2,964)	--	28,359
Intercompany receivable and payable	161,256	(340,917)	(80,885)	260,546	--
Prepaid expenses	(15,236)	6,359	(4,033)	--	(12,910)
Other assets	20,179	(28,125)	10,329	--	2,383
Accounts payable	1,610	(13,123)	3,852	5,742	(1,919)
Accrued liabilities	(18,633)	24,460	506	--	6,333
Income taxes	24,051	(28,483)	(7,963)	--	(12,395)
Retirement benefits and deferred items	(29,941)	47,176	(9,163)	--	8,072
Net deferred taxes	13,037	(11,695)	(3,159)	--	(1,817)
Net cash flows provided (used) by operating activities	186,140	(311,807)	(45,591)	255,373	84,115
Cash flows - Investing activities:					
Capital expenditures	(3,940)	(14,580)	(22,015)	--	(40,535)
Payments for acquisitions, net of cash acquired	(5,743)	--	--	--	(5,743)
Net cash flows used by investing activities	(9,683)	(14,580)	(22,015)	--	(46,278)
Cash flows - Financing activities:					
Net borrowings (repayments) under lines of credit	638	(8,403)	(5,880)	--	(13,645)
Payments of long-term debt	(8,333)	--	1,963	--	(6,370)
Payments of prepaid financing fees	(2,183)	--	--	--	(2,183)
Proceeds from long-term debt	(117,912)	138,397	(1,709)	--	18,776
Repurchase of common stock	(5,250)	--	--	--	(5,250)
Proceeds from issuance of common stock	(529)	--	--	--	(529)
Dividends paid	(21,172)	--	--	--	(21,172)
Other	--	241,460	7,329	(249,631)	(842)
Net cash flows (used) provided by financing activities	(154,741)	371,454	1,703	(249,631)	(31,215)
Effect of exchange rate changes	(21,716)	(44,178)	64,807	--	(1,087)
Net change in cash and cash equivalents	--	889	(1,096)	5,742	5,535
Cash and cash equivalents at beginning of year	--	--	31,062	(6,134)	24,928
Cash and cash equivalents at end of year	$ --	$ 889	$ 29,966	$ (392)	$ 30,463

NOTE 9: DEFERRED COMPENSATION - RABBI TRUST

The Company has established deferred compensation plans under which a portion of amounts earned by employees are invested in the Company's common stock and placed in a Rabbi Trust.

Effective October 1, 2000, the Company amended the provisions of the deferred compensation plans. As amended, the stock deferred compensation plans do not allow diversification and require the obligation for the deferred compensation amounts held in Company stock be settled by the delivery of a fixed number of shares of Company stock. Accordingly, the deferred compensation obligation to be settled with stock is reflected in shareholders' equity. Prior to these amendments, the Company recorded net expense of $923 in 2000 and $243 in 1999 to reflect the change in fair value of the deferred compensation liability for Company stock.

NOTE 10: RETIREMENT BENEFITS

The Company sponsors several noncontributory defined benefit pension plans, covering substantially all domestic employees and certain foreign employees, which provide benefits based on years of service and compensation. Retirement benefits for all other employees are provided through defined contribution pension plans, cash balance pension plans, and government-sponsored retirement programs. All defined benefit pension plans are funded based on independent actuarial valuations to provide for current service and an amount sufficient to amortize unfunded prior service over periods not to exceed 30 years.

Net defined benefit pension expense for domestic pension plans (including both qualified and nonqualified plans) was:

Year ended December 31,	2001	2000	1999
Service cost-benefits earned during the period	$ 9,550	$ 8,753	$ 7,585
Interest cost on projected benefit obligations	16,169	15,396	14,637
Gain on plan assets	(20,346)	(19,996)	(18,638)
Amortization of unrecognized prior service (benefit) cost	(1,292)	(1,313)	(232)
Amortization of unrecognized net asset	--	(404)	(529)
Special termination expense	--	5,210	--
Net defined benefit pension expense	$ 4,081	$ 7,646	$ 2,823

Special termination expense represents costs relating to a plant closure and as such, were recorded as restructuring expense in the consolidated statements of operations.

Net defined benefit pension expense for foreign pension plans was:

Year ended December 31,	2001	2000	1999
Service cost-benefits earned during the period	$ 1,839	$ 1,506	$ 232
Interest cost on projected benefit obligations	2,703	1,193	341
Gain on plan assets	(2,955)	(1,460)	(499)
Amortization of unrecognized prior service benefit	--	--	(79)
Curtailment	50	--	--
Amortization of unrecognized net asset	(47)	(55)	--
Net defined benefit pension expense	$ 1,590	$ 1,184	$ (5)

The following table reconciles the domestic plans' funded status to amounts recognized in the Company's consolidated balance sheets:

December 31,	2001	2000
Projected benefit obligations	$238,163	$225,564
Plan assets, at fair value	191,017	225,659
Funded status	(47,146)	95
Unrecognized net loss	46,519	6,884
Unrecognized prior service cost	(19,031)	(20,810)
Accumulated other comprehensive loss	(17,242)	(1,019)

Deferred tax asset	(10,125)	--
Net pension liability	$(47,025)	$(14,850)
Discount rate	7.0%	7.5%
Rate of increase in compensation levels	4.5%	4.5%
Long-term rate of return on assets	9.5%	9.5%

During 2001 the Company recorded an additional minimum liability of $16 million, net of tax, as a component of other comprehensive expense.

The following table reconciles the foreign plans' funded status to amounts recognized in the Company's consolidated balance sheets:

December 31,	2001	2000
Projected benefit obligations	$ 44,898	$ 46,036
Planned assets, at fair value	33,384	37,593
Funded status	(11,514)	(8,443)
Unrecognized net transition asset	--	(55)
Accumulated other comprehensive loss	(131)	(131)
Unrecognized net loss	6,104	1,896
Net pension liability	$ (5,541)	$ (6,733)
Discount rate	6.15%	5.99%
Rate of increase in compensation levels	3.3%	3.4%
Long-term rate of return on assets	8.0%	7.7%

Following is a reconciliation of the domestic plans' defined benefit pension obligations:

December 31,	2001	2000
Beginning benefit obligations	$225,564	$203,761
Service cost	9,550	8,753
Interest cost	16,169	15,396
Plan amendments	346	(842)
Actuarial loss	10,429	11,323
Benefits paid	(26,011)	(18,037)
Special termination costs	2,116	5,210
Ending benefit obligations	$238,163	$225,564

The special termination costs of $2.1 million in 2001 represents a liability assumed in the acquisition of IDP that was reclassified from the restructuring reserve.

Following is a reconciliation of the foreign plans' defined benefit pension obligations:

December 31,	2001	2000
Beginning benefit obligations	$ 46,036	$ 4,984
Acquisitions	--	39,650
Service cost	1,839	1,507
Interest cost	2,703	1,193
Employee contributions	568	385
Curtailments	(3,606)	--
Actuarial loss (gain)	1,706	(820)
Benefits paid	(2,481)	(1,162)
Foreign exchange impact	(1,867)	299
Ending benefit obligations	$ 44,898	$ 46,036

Following is a reconciliation of the domestic plans' defined benefit pension assets:

December 31,	2001	2000
Beginning plan assets	$225,659	$233,722
Return on plan assets	(9,002)	9,391
Company contributions	371	583
Benefits paid	(26,011)	(18,037)
Ending plan assets	$191,017	$225,659

Following is a reconciliation of the foreign plans' defined benefit pension assets:

December 31,	2001	2000
Beginning plan assets	$ 37,593	$ 5,411
Acquisitions	--	33,689
Employee contributions	568	385
Company contributions	2,194	904
Foreign exchange impact	(1,165)	(285)
Return on plan assets	(3,325)	(1,651)
Benefits paid	(2,481)	(860)
Ending plan assets	$ 33,384	$ 37,593

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $283,061, $279,593, and $224,401, respectively, as of December 31, 2001, and $20,271, $19,411, and $213, respectively, as of December 31, 2000.

Effective July 1, 1999, three existing defined benefit programs for United States employees were consolidated into one program. The plan was amended to reflect the conversion of primarily final average pay methodologies into a cash balance design and resulted in lowering the defined benefit pension obligation by $21,617 in 1999. In conjunction with this change, new employee groups became eligible to participate in the plan.

The Company sponsors several defined contribution plans covering substantially all domestic and Canadian employees and certain other foreign employees. Employees may contribute to these plans, and these contributions are matched in varying amounts by the Company. The Company may also make additional contributions for eligible employees. Defined contribution plan expense for the Company was $9,421 in 2001, $7,324 in 2000, and $7,712 in 1999.

The Company also sponsors several defined benefit post-retirement health care plans covering most current and certain future retirees in the United States. These plans are for medical and dental benefits and are administered through insurance companies and health maintenance

organizations. The plans include participant contributions, deductibles, co-insurance provisions and other limitations, and are integrated with Medicare and other group plans. The plans are funded by the Company as insured benefits and health maintenance organization premiums are incurred. The benefits are no longer available to new employees and certain existing employees.

Net post-retirement benefit expense comprised:

Year ended December 31,	2001	2000	1999
Service cost - benefits earned during the period	$ 246	$ 869	$ 957
Interest cost on accumulated post-retirement benefit obligations	6,630	4,707	3,841
Amortization of unrecognized prior service benefit	(2,306)	(2,002)	(1,333)
Curtailment	--	5,904	--
Net post-retirement benefit expense	$4,570	$9,478	$3,465

Following is a reconciliation of the accumulated post-retirement benefits obligations:

December 31,	2001	2000
Beginning accumulated post-retirement benefit obligations	$ 89,331	$49,045
Service cost	246	869
Interest cost	6,630	4,707
Curtailment	-	11,537
Plan amendments	-	(3,000)
Acquisition	-	25,000

Actuarial loss (gain)	15,661	5,441
Benefits paid	(8,428)	(4,268)
Ending accumulated post-retirement benefit obligations	$103,440	$89,331

Effective with the purchase of IDP on August 8, 2000, the Company assumed post-retirement liabilities for all former IDP active employees as of the date of the purchase. In connection with the restructuring plans announced in 2000, a curtailment liability of $11.5 million was recognized to reflect termination related post-retirement obligations. Curtailment expense of $5.9 million is included in restructuring expense in the consolidated statement of operations for the year ended December 31, 2000. The remaining $5.6 million of curtailment cost relates to former IDP employees and is included in goodwill.

The following table presents the components of post-retirement benefit amounts recognized in the Company's consolidated balance sheets:

December 31,	2001	2000
Accumulated post-retirement benefit obligations	$103,440	$ 89,331
Unrecognized prior service benefit	11,595	14,014
Unrecognized net loss	(19,753)	(4,205)
Accrued post-retirement benefits	$ 95,282	$ 99,140
Discount rate	7.0%	7.5%

The assumed ranges for the annual rates of increase in per capita costs for periods prior to Medicare were 10.0% for 2001 and 2002 and a gradual decrease to 5.0% for 2007 and future years.

Increasing the assumed rate of increase in post-retirement benefit costs by 1% in each year would increase net post-retirement benefit expense by approximately $450 and accumulated post-retirement benefit obligation by $6,443. Reducing the assumed rate of decrease in post-retirement benefit costs by 1% in each year would reduce net post-retirement benefit expense by approximately $416 and accumulated benefit obligations by $5,967.

The Company made contributions to the defined benefit post-retirement plans of $8,428 in 2001, $4,268 in 2000, and $4,105 in 1999.

NOTE 11: CONTINGENCIES

As of December 31, 2001, the Company was involved as a "potentially responsible party" (PRP) at four former public waste disposal sites that may be subject to remediation under pending government procedures. The sites are in various stages of evaluation by federal and state environmental authorities. The projected cost of remediating these sites, as well as the Company's alleged "fair share" allocation, is uncertain and speculative until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified, and the identification and location of additional parties is continuing under applicable federal or state law. Many of the other parties identified are financially strong and solvent companies that appear able to pay their share of the remediation costs. Based on the Company's preliminary information about the waste disposal practices at these sites and the environmental regulatory process in general, the Company believes that it is likely that ultimate remediation liability costs for each site will be apportioned among all liable parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites.

The Company is a defendant in numerous pending lawsuits (which include, in many cases, multiple claimants) that seek to recover damages for alleged personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and/or distributed by the Company. All such products were used within self-contained process equipment, and management does not believe that there was any emission of ambient asbestos-containing fiber during the use of this equipment.

The Company is also a defendant in several other products liability lawsuits that are insured, subject to the applicable deductibles, and certain other noninsured lawsuits received in the ordinary course of business. Management believes that the Company has adequately accrued estimated losses for such lawsuits. No insurance recovery has been projected for any of the insured claims, because management currently believes that all will be resolved within applicable deductibles. The Company is also a party to other noninsured litigation that is incidental to its business, and, in management's opinion, will be resolved without a material adverse impact on the Company's financial statements.

Although none of the aforementioned potential liabilities can be quantified with any certainty, the Company has established reserves covering these possible exposures, which management believes are reasonable based on past experience and available facts. While additional exposures beyond these reserves could exist, none gives rise to any additional liability that can now be reasonably estimated, and the Company believes any such costs will not have a material adverse impact on the Company. The Company will continue to evaluate these potentially additional contingent loss exposures and, if they develop, recognize expense as soon as such losses can be reasonably estimated.

NOTE 12: SHAREHOLDERS' EQUITY

Each share of the Company's common stock contains a preferred stock purchase right. These rights are not currently exercisable and trade in tandem with the common stock. The rights become exercisable and trade separately in the event of certain significant changes in common stock ownership or on the commencement of certain tender offers that, in either case, may lead to a change of control of the Company. Upon becoming exercisable, the rights provide shareholders the opportunity to acquire a new series of Company preferred stock to be then automatically issued at a pre-established price. In the event of certain forms of acquisition of the Company, the rights also provide Company shareholders the opportunity to purchase shares of the acquiring Company's common stock from the acquirer at a 50% discount from the current market value. The rights are redeemable for $0.022 per right by the Company at any time prior to becoming exercisable and will expire in August 2006.

NOTE 13: INCOME TAXES

The provision (benefit) for income taxes consisted of the following:

Year ended December 31,	2001	2000	1999
Current:			
U.S. federal	$ --	$ (98)	$ 1,179
Non-U.S	20,992	8,775	8,836

State and local	373	1,097	1,630
Total current	21,365	9,774	11,645
Deferred:			
U.S. federal	(24,919)	(2,924)	(11,780)
Non-U.S	6,545	(455)	6,777
State and local	(865)	319	(574)
Total deferred	(19,239)	(3,060)	(5,577)
Total provision	$ 2,126	$ 6,714	$ 6,068

The provision (benefit) for income taxes is included in the consolidated financial statements as follows:

Year ended December 31,	2001	2000	1999
Earnings before extraordinary items	$ 9,275	$ 7,876	$ 6,068
Extraordinary items	(7,149)	(1,162)	--
Total provision	$ 2,126	$ 6,714	$ 6,068

During 2001, the Company recorded an extraordinary item for costs totaling $25 million associated with the prepayment of long-term debt. The $7 million tax benefit on the extraordinary item is less than the Company's effective tax rate because certain costs associated with the prepayment are not deductible for tax purposes.

The provision for income taxes on earnings before extraordinary items was different from the statutory corporate rate due to the following:

Year ended December 31,	2001	2000	1999
U.S. federal income tax rate	35.0%	35.0%	35.0%
Non-U.S. tax rate differential and utilization of operating loss carryforwards	1.9	1.2	0.7
State and local income taxes, net	(0.5)	4.5	2.7
Utilization of tax credits	(0.2)	(6.5)	(1.6)
Foreign sales corporation	2.3	(4.8)	(2.2)
Goodwill	5.3	4.6	1.6
Meals and entertainment	4.3	4.0	2.7
Equity in income of unconsolidated subsidiaries	(3.1)	(5.3)	(2.6)
Reduction of tax contingencies for closed statutes	(12.5)	--	--
Other, net	3.7	1.3	(3.0)
Effective tax rate	36.2%	34.0%	33.3%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated deferred tax assets and liabilities were:

December 31,	2001	2000
Deferred tax assets related to:		
Retirement benefits	$ 55,688	$ 40,989
Net operating loss carryforwards	35,255	11,207
Compensation accruals	7,147	13,266
Inventories	4,690	5,130
Credit carryforwards	35,797	20,491
Loss on dispositions	1,693	3,454
Warranty and accrued liabilities	5,915	10,637
Restructuring charge	4,117	9,797
Other	7,068	2,398
Total deferred tax assets	157,370	117,369
Less valuation allowances	18,603	14,036
Net deferred tax assets	138,767	103,333
Deferred tax liabilities related to:		
Property, plant and equipment	38,736	40,460
Goodwill	30,341	31,811
Other	9,888	1,865
Total deferred tax liabilities	78,965	74,136
Deferred tax assets, net	$ 59,802	$ 29,197

The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of net operating loss and foreign tax credit carryforwards. The amount of the deferred tax assets considered realizable, however, could be changed in the near term if circumstances related to future taxable income or results of tax planning strategies differ from management's expectations during the carryforward period. The net changes in the valuation allowances during 2001 were primarily attributable to an increase in expected non-utilization of net operating loss and credit carryforwards. The Company had approximately $96,302 of net operating loss carryforwards at December 31, 2001. Net operating losses of $18,618 were generated in non-U.S. jurisdictions. Net operating losses generated in the U.S. will not start to expire until 2017. The Company had approximately $34,451 of foreign tax credit carryforwards at December 31, 2001, which expire in 2003 through 2006 if unused.

Earnings before income taxes comprised:

Year ended December 31,	2001	2000	1999
U.S.	$(51,694)	$ 1,114	$(21,116)
Non-U.S.	77,323	22,070	39,361
Total	$ 25,629	$ 23,184	$ 18,245

Undistributed earnings of the Company's non-U.S. subsidiaries amounted to approximately $259,655 at December 31, 2001. These earnings are considered to be indefinitely reinvested and, accordingly, no additional United States income taxes or non-U.S. withholding taxes have been provided. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical.

NOTE 14: SEGMENT INFORMATION

Flowserve is principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. The Company provides pumps, valves, and mechanical seals primarily for the petroleum industry, the chemical-processing industry, power-generation industry, water industry, general industry and other industries requiring flow management products.

The Company has three divisions, each of which constitutes a business segment. Each division manufactures different products and is defined by the type of products and services provided. Each division has a president, who reports directly to the Chief Executive Officer, and a Division Controller. For decision-making purposes, the Chief Executive Officer, Chief Financial Officer and other members of upper

management use financial information generated and reported at the division level.

The Flowserve Pump Division designs, manufactures and distributes pumps and related equipment. The Flow Solutions Division designs, manufactures and distributes mechanical seals and sealing systems and provides service and repair for flow control equipment used in process industries. The Flow Control Division designs, manufactures and distributes automated and manual quarter-turn valves, control valves and valve actuators, and related components. The Company also has a corporate headquarters that does not constitute a separate division or business segment. Amounts classified as All Other include Corporate headquarter costs and other minor entities that are not considered separate segments. The results for Invatec and IDP are included in the Flow Solutions Division and Flowserve Pump Division, respectively, from the date of acquisition.

The Company evaluates segment performance and allocates resources based on profit or loss excluding integration, restructuring and interest expense, other income and income taxes. The accounting policies of the reportable segments are the same as described in Note 1 - Significant Accounting Policies. Intersegment sales and transfers are recorded at cost plus a profit margin. This intersegment profit is eliminated in consolidation. Minor reclassifications have been made to certain previously reported information to conform to the current business configuration.

Year ended December 31, 2001	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$1,023,332	$ 617,555	$271,245	$ 5,375	$ 1,917,507
Intersegment sales	7,180	20,983	7,662	(35,825)	--
Segment operating income(1)	124,359	79,374	31,470	(31,214)	203,989
Depreciation and amortization	41,392	18,196	8,089	6,178	73,855
Identifiable assets	$1,285,165	$ 458,265	$206,693	$101,852	$ 2,051,975

Capital expenditures	14,866	11,736	6,821	1,802	35,225

(1) Excludes integration expense, restructuring, interest expense, other income and income taxes.

Year ended December 31, 2000	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 659,181	$ 606,741	$266,368	$ 6,003	$ 1,538,293
Intersegment sales	13,031	17,273	9,916	(40,220)	--
Segment operating income(1)	78,793	68,232	28,811	(29,230)	146,606
Depreciation and amortization	26,517	17,631	9,035	3,854	57,037
Identifiable assets	$1,313,853	$ 435,320	$197,061	$ 163,909	$ 2,110,143
Capital expenditures	8,425	10,880	3,843	4,671	27,819

(1) Excludes integration expense, restructuring, interest expense, other income and income taxes.

Year ended December 31, 1999	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 347,159	$ 423,658	$283,670	$ 6,785	$ 1,061,272
Intersegment sales	6,011	14,841	11,650	(32,502)	--
Segment operating income(1)	19,927	55,882	23,536	(37,530)	61,815
Segment operating income (before all special items)(2)	23,095	56,148	25,069	(31,631)	72,681
Depreciation and amortization	10,246	12,998	9,824	6,531	39,599
Identifiable assets	$ 222,999	$ 292,015	$213,322	$ 109,815	$ 838,151
Capital expenditures	12,377	17,068	4,583	6,507	40,535

(1) Excludes integration expense, restructuring, interest expense, other income and income taxes.

(2) Excludes asset impairments of $5,067 and severance and other closure costs of $5,799.

RECONCILIATION OF SEGMENT INFORMATION TO CONSOLIDATED AMOUNTS
Significant items from the Company's reportable segments can be reconciled to the consolidated amounts as follows:

	Year Ended December 31,		
Sales	2001	2000	1999
Total external sales for reportable segments	$ 1,912,132	$ 1,532,290	$ 1,054,487
Total intersegment sales for reportable segments	35,825	40,220	32,502
Other sales	5,375	6,003	6,785
Elimination of inter-segment sales	(35,825)	(40,220)	(32,502)

Total sales	$ 1,917,507	$ 1,538,293	$ 1,061,272

	Year Ended December 31,		
Profit or Loss	2001	2000	1999
Total segment operating income	$ 235,203	$ 175,836	$ 99,345
Corporate expenses and other	31,214	29,230	37,530
Restructuring expenses	(1,208)	19,364	15,860
Integration expenses	63,043	35,211	14,207
Net interest expense	118,072	70,321	14,677
Other income, net	(1,547)	(1,474)	(1,174)
Earnings before income taxes	$ 25,629	$ 23,184	$ 18,245

	Year Ended December 31,		
Assets	2001	2000	1999
Total assets for reportable segments	$ 1,950,123	$ 1,946,234	$ 728,336
Other assets	217,454	231,983	141,911
Elimination of inter-segment receivables	(115,602)	(68,074)	(32,096)
Total assets	$ 2,051,975	$ 2,110,143	$ 838,151

GEOGRAPHIC INFORMATION

The Company attributes revenues to different geographic areas based on the facilities' location. Long-lived assets are classified based on the geographic area in which the assets are located. Sales related to and investment in identifiable assets by geographic area are as follows:

Year ended December 31, 2001	Sales	Long-lived Assets
United States	$1,095,622	$ 802,835
Europe	568,226	256,891
Other(1)	253,659	32,905
Consolidated total	$1,917,507	$1,092,631

Year ended December 31, 2000	Sales	Long-lived Assets
United States	$ 950,783	$ 877,322
Europe	372,442	231,530
Other(1)	215,068	36,262
Consolidated total	$1,538,293	$1,145,114

Year ended December 31, 1999	Sales	Long-lived Assets
United States	$ 611,374	$ 243,107
Europe	270,850	81,616
Other(1)	179,048	28,559
Consolidated total	$1,061,272	$ 353,282

(1) Includes Canada, Latin America and Asia Pacific. No individual geographic segment within this group represents 10% or more of consolidated totals.

MAJOR CUSTOMER INFORMATION

The Company has not received revenues from any customer that represent 10% or more of consolidated revenues for any of the years presented.

NOTE 15: UNAUDITED QUARTERLY FINANCIAL DATA

(Amounts in millions, except per share data)	2001(a)				2000(b)			
Quarter	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Net sales	$539.3	$469.6	$ 464.6	$ 444.0	$541.7	$412.1	$299.2	$285.3
Gross profit	169.0	152.3	155.7	137.6	174.4	130.1	103.2	99.2
Earnings (loss) before extraordinary items	16.5	5.8	2.6	(8.5)	1.7	(10.9)	12.6	11.9
Net earnings (loss)	(1.4)	5.8	2.6	(8.5)	1.7	(13.0)	12.6	11.9
Earnings (loss) per share before extraordinary items (basic and diluted)	0.39	0.15	0.07	(0.22)	0.05	(0.29)	0.33	0.31
Earnings (loss) per share (basic and diluted)	(0.03)	0.15	0.07	(0.22)	0.05	(0.34)	0.33	0.31

(a) Net earnings in 2001 include IDP integration expenses of $63.0 million, a reduction of Flowserve restructuring expense of $1.2 million, and an extraordinary item of $17.9 million net of tax, resulting in a reduction of net earnings of $57.3 million, or $1.46 per share after tax. On a quarterly basis, earnings per share before special and extraordinary items were $0.58, $0.38, $0.35 and $0.10 per share in the fourth, third, second and first quarter, respectively, of 2001.

(b) Net earnings in 2000 include IDP integration expenses of $35.2 million, IDP restructuring expenses of $19.4 million, and extraordinary items of $2.1 million net of tax, resulting in a reduction of net earnings of $37.8 million, or $1.00 per share after tax. On a quarterly basis, earnings per share before special and extraordinary items were $0.50, $0.18, $0.33 and $0.31 per share in the fourth, third, second and first quarter, respectively, of 2000.

FIVE-YEAR SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data and ratios)	December 31				
	2001(a)	2000(b)	1999(c)	1998(d)	1997(e)
RESULTS OF OPERATIONS					
Sales	$ 1,917,507	$ 1,538,293	$ 1,061,272	$ 1,083,086	$ 1,152,196
Gross profit	614,552	506,912	363,344	415,333	448,877
Selling, general and administrative expense	410,563	360,306	301,529	291,928	312,783
Restructuring and merger transaction expenses	(1,208)	19,364	15,860	--	44,531
Integration expenses	63,043	35,211	14,207	38,326	6,982
Operating income	142,154	92,031	31,748	85,079	84,581
Net interest expense	118,072	70,321	14,677	11,378	11,326
Earnings before income taxes	25,629	23,184	18,245	73,157	89,789
Provision for income taxes	9,275	7,876	6,068	25,502	38,223
Earnings before extraordinary items and cumulative effect of change in accounting principle	16,354	15,308	12,177	47,655	51,566
Cumulative effect of change in accounting principle	--	--	--	(1,220)	--
Extraordinary items, net of income taxes	(17,851)	(2,067)	--	--	--
Net (loss) earnings	(1,497)	13,241	12,177	48,875	51,566
Average shares outstanding	39,330	37,842	37,856	39,898	40,896
Net (loss) earnings per share (basic and diluted)	$ (0.04)	$ 0.35	$ 0.32	$ 1.23	$ 1.26
Dividends paid per share	--	--	0.56	0.56	0.65
Bookings	1,975,536	1,521,561	1,039,262	1,082,484	1,172,431
Ending backlog	662,803	659,250	270,647	291,082	291,568
PERFORMANCE RATIOS (as a percent of sales)					
Gross profit margin	32.0%	33.0%	34.2%	38.3%	39.0%
Selling, general and administrative expense	21.4%	23.4%	28.4%	26.9%	27.1%
Operating income	7.4%	6.0%	3.0%	7.9%	7.3%
Net earnings	--	0.9%	1.1%	4.5%	4.5%
FINANCIAL CONDITION					
Working capital	$ 481,368	$ 464,035	$ 258,128	$ 268,164	$ 284,220
Net property, plant and equipment	362,388	405,412	209,976	209,032	209,509
Intangibles and other assets	791,448	806,679	174,387	173,875	155,852
Total assets	2,051,975	2,110,143	838,151	870,197	880,025
Capital expenditures	35,225	27,819	40,535	38,249	39,560
Depreciation and amortization	73,855	57,037	39,599	39,299	38,933
Long term debt	996,222	1,111,108	198,010	186,292	128,936
Retirement benefits and deferred items	227,963	260,107	136,207	120,015	125,372
Shareholders' equity	411,019	304,911	308,274	344,764	395,273
FINANCIAL RATIOS					
Return on average shareholders' equity	$ (0.5)%	4.4%	3.6%	13.1%	13.0%
Return on average net assets	4.4%	5.5%	3.4%	8.6%	9.0%
Net debt to capital ratio	71.3%	78.1%	35.7%	34.2%	18.2%
Current ratio	2.2	2.1	2.3	2.2	2.2
Interest coverage ratio	1.7	2.0	4.3	9.5	10.7

(a) Financial results in 2001 include integration expenses of $63,043, a reduction of Flowserve restructuring expense of $1,208 and an extraordinary item of $17,851 net of tax, resulting in a reduction in after tax net earnings of $57,307 or $1.46 per share, for a net earnings per share before special items of $1.42.

(b) Financial results in 2000 include Invatec and IDP from the date of the respective acquisitions. Financial results in 2000 include integration expenses of $35,211, restructuring expenses of $19,364 and an extraordinary item of $2,067 net of tax, resulting in a reduction in after tax net earnings of $37,752 or $1.00 per share, for a net earnings per share before special items of $1.35.

(c) Financial results in 1999 include integration expenses of $14,207 relating to the Company's Flowserver program, restructuring expenses of $15,860, other nonrecurring items for inventory and fixed asset impairment of $5,067 (included in costs of sales), and executive separation contracts and certain costs related to fourth-quarter 1999 facility closures of $5,799 (included in selling and administrative expense), resulting in a reduction in net earnings of $27,322 or $0.72 per share after tax, for net earnings per share before special items of $1.04.

(d) Financial results in 1998 include integration expenses of $38,326, an obligation under an executive employment agreement of $3,803 (included in selling and administrative expense) and, except for operating income, the benefit of the cumulative effect of an accounting change of $1,220, resulting in a reduction in net earnings of $26,062, or $0.65 per share after tax, for a net earnings per share before special items of $1.88.

(e) Financial results in 1997 include restructuring and integration expenses of $51,513 and an $11,376 gain on the sale of a subsidiary, resulting in a reduction in net earnings of $30,483, or $0.75 per share after tax, for net earnings per share before special items of $2.01.

EXHIBIT 21.1

FLOWSERVE CORPORATION
LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OWNED
Flowserve Argentina S.A.	Argentina	100%
Flowserve FSD Pty. Ltd.	Australia	100%
Flowserve Australia Pty. Ltd.	Australia	100%
Flowserve Pty. Ltd.	Australia	100%
Flowserve Dichtungstechnik Gesellschaft m.b.H	Austria	100%
Ingersoll-Dresser Pumps GmbH	Austria	100%
Flowserve International (Barbados), Ltd. Foreign Sales Corporation	Barbados	100%
ARS N.V.	Belgium	100%
ARS Loheren N.V.	Belgium	100%
Flowserve FSD N.V.	Belgium	100%
Flowserve RED S.A.	Belgium	100%
Flowserve SRD N. V.	Belgium	100%
Flowserve Ltda do Brazil	Brazil	100%
Ingersoll-Dresser Pumps do Brazil Industria e Comercio Ltda.	Brazil	100%
Flowserve Inc.	Canada	100%
Flowserve Chile S.A.	Chile	100%
Flowserve International (China) Inc.	China	100%
Flowserve Colombia, S.A.	Colombia	100%
Flowserve Europe Holding ApS	Denmark	100%
Flowserve Finance ApS	Denmark	100%
Flowserve S.A.S	France	100%
IDP International S.A.	France	100%
IDP Pleuger S.A.	France	100
Flowserve Pompes S.A.S.	France	100%
Flowserve Ahaus GmbH	Germany	100%
Flowserve Essen GmbH	Germany	100%
Flowserve Dortmund Verwaltungs GmbH	Germany	100%
Flowserve Dortmund GmbH & Co. KG	Germany	

100%

Ingersoll-Dresser Pumpen GmbH	Germany	100%
IDP Pumpen GmbH	Germany	100%

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OWNED
Ingersoll-Dresser Pumpen GmbH	Germany	100%
IPSCO GmbH	Germany	100%
Pleuger Worthington GmbH	Germany	100%
Flowserve Microfinish Pumps Pvt. Ltd.	India	76%
Flowserve India Controls Pvt. Ltd.	India	95%
Flowserve Microfinish Valves Pvt. Ltd.	India	76%
PT Flowserve	Indonesia	75%
Flowserve Spa	Italy	100%
Ingersoll-Dresser Pumps S.p.A.	Italy	100%
Worthington S.p.A.	Italy	100%
Flowserve Japan K.K.	Japan	100%
Flowserve SAAG Sdn. Bhd.	Malaysia	70%
Flowserve (Mauritius) Corporation	Mauritius	100%
Flowserve S.A. de C.V.	Mexico	100%
Flowserve B.V.	Netherlands	100%
Flowserve International B.V.	Netherlands	100%
Flowserve Repair & Services B.V.	Netherlands	100%
Flowserve Finance B.V.	Netherlands	100%
Flowserve New Zealand Limited	New Zealand	100%
Flowserve Abahsain Co.Ltd.	Saudi Arabia	60%
Flowserve Pte. Ltd.	Singapore	100%
Flowserve South Africa (Proprietary) Limited	South Africa	100%
Compania Ingersoll-Dresser Pump S.A.	Spain	100%
Flowserve, S.A.	Spain	100%
Flowserve S.A.	Switzerland	100%
ID Pump AG	Switzerland	100%
Ingersoll-Dresser Pump Services Sarl	Switzerland	100%
Ingersoll-Dresser Pump S.A.	Switzerland	100%
Flowserve (Thailand) Limited	Thailand	60%
Ingersoll-Dresser Pump (Thailand) Ltd.	Thailand	100%
Flowserve International Limited	United Kingdom	100%

Flowserve Limited	United Kingdom	100%
Flowserve Pumps Ltd.	United Kingdom	100%
Ingersoll-Dresser Pumps Newark Ltd.	United Kingdom	100%
IPSCO U.K. Limited	United Kingdom	100%

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OWNED
CFM-V.R. Tesco Inc.	U.S. - Delaware	100%
Flowserve International, Inc.	U.S. - Delaware	100%
Flowserve US Inc	U.S. - Delaware	100%
Flowserve Holdings, Inc.	U. S. - Delaware	100%
Flowserve International LLC	U.S. - Delaware	100%
Flowserve Management Company (Business Trust)	U. S. - Delaware	100%
Ingersoll-Dresser Pump Company	U.S. - Delaware	100%
Durametallic Australia Holding Company	U.S. - Michigan	100%
BW/IP New Mexico, Inc.	U.S. - New Mexico	100%
Flowserve Venezuela S.A.	Venezuela	100%
Hot Tapping & Plugging C.A.	Venezuela	100%

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-62044) and to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-28497, 333-82081, 33-28497, 333-50667, and 333-46234) of Flowserve Corporation of our report dated February 5, 2002 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 5, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Dallas, Texas
March 8, 2002

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Flowserve Corporation of our report dated February 10, 2000 (except for Note 8, as to which date is July 14, 2000), with respect to the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows of Flowserve Corporation and subsidiaries for the year ended December 31, 1999, included in the 2001 Annual Report to Shareholders of Flowserve Corporation for the year ended December 31, 2001.

Our audit also included the financial statement schedule of Flowserve Corporation for the year ended December 31, 1999, listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-28497) pertaining to the 1989 Stock Option Plan, (Form S-8 No.333-82081) and (Form S-8 No. 33-28497) pertaining to Flowserve Corporation Retirement Savings Plan (formerly the Duriron Company, Inc. Saving and Thrift Plan), (Form S-8 No. 333-50667) pertaining to the BW/IP, Inc. 1996 Long-Term Incentive Plan, the BW/IP, Inc. 1996 Directors' Stock and Deferred Compensation Plan, the BW/IP International, Inc. 1992 Long-Term Incentive Plan and the BWIP Holding, Inc. Non-Employee Directors' Stock Option Plan, (Form S-8 No. 333-46234) pertaining to the 1997 and 1999 Stock Option Plans, and (Form S-3 No. 333-62044) and in the related Prospectus of our report dated February 10, 2000 (except for Note 8, as to which date is July 14, 2000), with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Flowserve Corporation.

/s/ Ernst & Young LLP

Dallas, Texas
March 8, 2002