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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2022**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____to_____

Commission File No. 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.)
5215 N. O'Connor Blvd., Suite 700, Irving, Texas	**75039**
(Address of principal executive offices)	(Zip Code)

(972) 443-6500
(Registrant's telephone number, including area code)
Former name, former address and former fiscal year, if changed since last report: N/A

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

Title of each class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $1.25 Par Value	FLS	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of October 25, 2022 there were 130,695,866 shares of the issuer's common stock outstanding.

FLOWSERVE CORPORATION
FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

FLOWSERVE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30,	
	2022	2021
Sales	$ 872,881	$ 866,118
Cost of sales	(633,304)	(612,626)
Gross profit	239,577	253,492
Selling, general and administrative expense	(221,142)	(200,862)
Net earnings from affiliates	5,782	4,732
Operating income	24,217	57,362
Interest expense	(11,582)	(14,746)
Loss on extinguishment of debt	—	(563)
Interest income	1,141	827
Other income (expense), net	28,676	(1,504)
Earnings before income taxes	42,452	41,376
(Provision for) benefit from income taxes	(1,817)	10,433
Net earnings, including noncontrolling interests	40,635	51,809
Less: Net earnings attributable to noncontrolling interests	(2,235)	(2,024)
Net earnings attributable to Flowserve Corporation	$ 38,400	$ 49,785
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 0.29	$ 0.38
Diluted	0.29	0.38
Weighted average shares - basic	130,703	130,242
Weighted average shares - diluted	131,402	130,789

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(Amounts in thousands)	Three Months Ended September 30,	
	2022	2021
Net earnings, including noncontrolling interests	$ 40,635	$ 51,809
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of $(3,183) and $(1,274), respectively	(89,282)	(15,561)
Pension and other postretirement effects, net of taxes of $(213) and $(471), respectively	6,161	4,955
Cash flow hedging activity, net of taxes of $(9) and $414, respectively	29	(1,347)
Other comprehensive income (loss)	(83,092)	(11,953)
Comprehensive income (loss), including noncontrolling interests	(42,457)	39,856
Comprehensive (income) loss attributable to noncontrolling interests	(2,144)	(2,021)
Comprehensive income (loss) attributable to Flowserve Corporation	$ (44,601)	$ 37,835

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)	Nine Months Ended September 30,	
	2022	2021
Sales	$ 2,576,161	$ 2,621,604
Cost of sales	(1,877,108)	(1,838,974)
Gross profit	699,053	782,630
Selling, general and administrative expense	(621,956)	(609,965)
Gain on sale of business	—	1,806
Net earnings from affiliates	14,821	11,157
Operating income	91,918	185,628
Interest expense	(33,337)	(45,847)
Loss on extinguishment of debt	—	(8,173)
Interest income	2,938	1,893
Other income (expense), net	28,152	(20,717)
Earnings before income taxes	89,671	112,784
(Provision for) benefit from income taxes	(16,618)	3,929
Net earnings, including noncontrolling interests	73,053	116,713
Less: Net earnings attributable to noncontrolling interests	(5,694)	(7,495)
Net earnings attributable to Flowserve Corporation	$ 67,359	$ 109,218
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 0.52	$ 0.84
Diluted	0.51	0.83
Weighted average shares - basic	130,604	130,325
Weighted average shares - diluted	131,233	130,867

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(Amounts in thousands)	Nine Months Ended September 30,	
	2022	2021
Net earnings, including noncontrolling interests	$ 73,053	$ 116,713
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of $(23,788) and $(7,021), respectively	(170,187)	(12,452)
Pension and other postretirement effects, net of taxes of $(925) and $(1,414), respectively	16,318	11,273
Cash flow hedging activity, net of taxes of $(27) and $348, respectively	87	(1,130)
Other comprehensive income (loss)	(153,782)	(2,309)
Comprehensive income (loss), including noncontrolling interests	(80,729)	114,404
Comprehensive (income) loss attributable to noncontrolling interests	(6,941)	(7,654)
Comprehensive income (loss) attributable to Flowserve Corporation	$ (87,670)	$ 106,750

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except par value)	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 351,870	$ 658,452
Accounts receivable, net of allowance for expected credit losses of $82,101 and $74,336, respectively	770,152	739,210
Contract assets, net of allowance for expected credit losses of $3,999 and $2,393, respectively	205,236	195,598
Inventories, net	779,449	678,287
Prepaid expenses and other	117,077	117,130
Total current assets	2,223,784	2,388,677
Property, plant and equipment, net of accumulated depreciation of $1,135,437 and $1,191,823, respectively	473,224	515,927
Operating lease right-of-use assets, net	173,442	193,863
Goodwill	1,135,538	1,196,479
Deferred taxes	44,833	44,049
Other intangible assets, net	134,105	152,463
Other assets, net of allowance for expected credit losses of $66,210 and $67,696, respectively	321,062	258,310
Total assets	$ 4,505,988	$ 4,749,768
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 414,372	$ 410,062
Accrued liabilities	382,535	445,092
Contract liabilities	216,094	202,965
Debt due within one year	47,962	41,058
Operating lease liabilities	30,723	32,628
Total current liabilities	1,091,686	1,131,805
Long-term debt due after one year	1,232,248	1,261,770
Operating lease liabilities	155,328	166,786
Retirement obligations and other liabilities	334,967	352,062
Commitments and contingencies (See Note 10)		
Shareholders' equity:		
Common shares, $1.25 par value	220,991	220,991
Shares authorized – 305,000		
Shares issued – 176,793		
Capital in excess of par value	506,744	506,386
Retained earnings	3,678,817	3,691,023
Treasury shares, at cost – 46,376 and 46,794 shares, respectively	(2,037,758)	(2,057,706)
Deferred compensation obligation	6,950	7,214
Accumulated other comprehensive loss	(718,619)	(563,589)
Total Flowserve Corporation shareholders' equity	1,657,125	1,804,319
Noncontrolling interests	34,634	33,026
Total equity	1,691,759	1,837,345
Total liabilities and equity	$ 4,505,988	$ 4,749,768

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Total Flowserve Corporation Shareholders' Equity									
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
	(Amounts in thousands)									
Balance — July 1, 2022	176,793	$ 220,991	$ 500,013	$ 3,666,935	(46,377)	$ (2,037,839)	$ 6,921	$ (635,618)	$ 32,490	$ 1,753,893
Stock activity under stock plans	—	—	(129)	—	1	81	29	—	—	(19)
Stock-based compensation	—		6,860	—	—	—	—	—	—	6,860
Net earnings	—	—	—	38,400	—	—	—	—	2,235	40,635
Cash dividends declared	—	—	—	(26,518)	—	—	—	—	—	(26,518)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(83,001)	(91)	(83,092)
Balance — September 30, 2022	176,793	$ 220,991	$ 506,744	$ 3,678,817	(46,376)	$ (2,037,758)	$ 6,950	$ (718,619)	$ 34,634	$ 1,691,759
Balance — July 1, 2021	176,793	$ 220,991	$ 494,221	$ 3,677,117	(46,806)	$ (2,058,279)	$ 7,077	$ (600,143)	$ 29,708	$ 1,770,692
Stock activity under stock plans	—	—	(237)	—	2	111	68	—	—	(58)
Stock-based compensation	—	—	7,138	—	—	—	—	—	—	7,138
Net earnings	—	—	—	49,785	—	—	—	—	2,024	51,809
Cash dividends declared	—	—	—	(26,395)	—	—	—	—	—	(26,395)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(11,950)	(3)	(11,953)
Balance — September 30, 2021	176,793	$ 220,991	$ 501,122	$ 3,700,507	(46,804)	$ (2,058,168)	$ 7,145	$ (612,093)	$ 31,729	$ 1,791,233

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Total Flowserve Corporation Shareholders' Equity									
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
	(Amounts in thousands)									
Balance — January 1, 2022	176,793	$ 220,991	$ 506,386	$ 3,691,023	(46,794)	$ (2,057,706)	$ 7,214	$ (563,589)	$ 33,026	$ 1,837,345
Stock activity under stock plans	—	—	(23,399)	—	418	19,948	(264)	—	—	(3,715)
Stock-based compensation	—	—	23,757	—	—	—	—	—	—	23,757
Net earnings	—	—	—	67,359	—	—	—	—	5,694	73,053
Cash dividends declared	—	—	—	(79,565)	—	—	—	—	—	(79,565)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(155,030)	1,248	(153,782)
Other, net	—	—	—	—	—	—	—	—	(5,334)	(5,334)
Balance — September 30, 2022	176,793	$ 220,991	$ 506,744	$ 3,678,817	(46,376)	$ (2,037,758)	$ 6,950	$ (718,619)	$ 34,634	$ 1,691,759
Balance — January 1, 2021	176,793	$ 220,991	$ 502,227	$ 3,670,543	(46,768)	$ (2,059,309)	$ 6,164	$ (609,625)	$ 30,330	$ 1,761,321
Stock activity under stock plans	—	—	(24,715)	—	404	18,672	981	—	—	(5,062)
Stock-based compensation	—	—	23,610	—	—	—	—	—	—	23,610
Net earnings	—	—	—	109,218	—	—	—	—	7,495	116,713
Cash dividends declared	—	—	—	(79,254)	—	—	—	—	—	(79,254)
Repurchases of common shares	—	—	—	—	(440)	(17,531)	—	—	—	(17,531)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(2,468)	159	(2,309)
Other, net	—	—	—	—	—	—	—	—	(6,255)	(6,255)
Balance — September 30, 2021	176,793	$ 220,991	$ 501,122	$ 3,700,507	(46,804)	$ (2,058,168)	$ 7,145	$ (612,093)	$ 31,729	$ 1,791,233

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)	Nine Months Ended September 30, 2022	2021
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	$ 73,053	$ 116,713
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	59,207	66,316
Amortization of intangible and other assets	10,051	10,643
Loss on extinguishment of debt	—	8,173
Stock-based compensation	23,757	23,610
Foreign currency, asset write downs and other non-cash adjustments	(24,085)	9,897
Change in assets and liabilities:		
Accounts receivable, net	(78,376)	24,361
Inventories, net	(151,938)	(47,533)
Contract assets, net	(21,912)	35,358
Prepaid expenses and other, net	(14,881)	2,429
Accounts payable	29,307	(58,600)
Contract liabilities	27,237	9,379
Accrued liabilities and income taxes payable	(32,735)	9,136
Retirement obligations and other liabilities	24,123	(23,842)
Net deferred taxes	(32,293)	(34,933)
Net cash flows provided (used) by operating activities	(109,485)	151,107
Cash flows – Investing activities:		
Capital expenditures	(45,831)	(34,034)
Other	184	(4,679)
Net cash flows provided (used) by investing activities	(45,647)	(38,713)
Cash flows – Financing activities:		
Payments on senior notes	—	(407,473)
Proceeds from issuance of senior notes	—	498,280
Proceeds from long-term debt	—	300,000
Payments of deferred loan cost	—	(5,399)
Payments on term loan	(24,239)	—
Proceeds under other financing arrangements	1,135	1,408
Payments under other financing arrangements	(356)	(6,215)
Repurchases of common shares	—	(17,531)
Payments related to tax withholding for stock-based compensation	(4,578)	(5,899)
Payments of dividends	(78,406)	(78,551)
Other	(5,334)	(6,276)
Net cash flows provided (used) by financing activities	(111,778)	272,344
Effect of exchange rate changes on cash	(39,672)	(22,743)
Net change in cash and cash equivalents	(306,582)	361,995
Cash and cash equivalents at beginning of period	658,452	1,095,274
Cash and cash equivalents at end of period	$ 351,870	$ 1,457,269

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2022 and December 31, 2021, and the related condensed consolidated statements of income, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of shareholders' equity for the three and nine months ended September 30, 2022 and 2021 and condensed consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021 of Flowserve Corporation are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for fair statement of such condensed consolidated financial statements have been made. Prior period information has been updated to conform to current year presentation.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 ("Quarterly Report") are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Annual Report").

Coronavirus Pandemic ("COVID-19") - During the first nine months of 2022, we continued to respond to the macroeconomic and global economic impacts caused by COVID-19. Many of our suppliers have experienced varying lengths of production and shipping delays related to the effects of COVID-19. These conditions have had an adverse impact on the speed at which we can manufacture and ship our products to customers, and have also led to an increase in logistics, transportation and freight costs. As a result of the macroeconomic impacts, we have also experienced labor constraints and inflationary pressures. The Company's condensed consolidated financial statements presented reflect management's estimates and assumptions regarding the effects of COVID-19 as of the date of the condensed consolidated financial statements.

Russia and Ukraine Conflict - In response to the ongoing military conflict in Ukraine, several countries, including the United States, have imposed economic sanctions and export controls on certain industry sectors and parties in Russia. As a result of this conflict, including the aforementioned sanctions and overall instability in the region, in February 2022 we stopped accepting new orders in Russia and temporarily suspended fulfillment of existing orders. In March 2022, we made the decision to permanently cease all Company operations in Russia. We have commenced the necessary actions to cease operations of our Russian subsidiary, including taking steps to cancel existing contracts with customers, terminate our approximately 50 Russia-based employees and terminate other related contractual commitments, and currently expect this process to be substantially complete by the end of 2022. As a result of the conflict and the resulting macroeconomic impacts we have also experienced supply shortages and inflationary pressures.

In 2021, our Russian subsidiary had approximately $14 million of sales with an additional $36 million of sales from certain of our other foreign subsidiaries into the Russian market. As of March 31, 2022, the net assets held on our Russian subsidiary's balance sheet were $2.7 million, including $7.1 million of cash, $3.6 million of accounts receivables, a $9.3 million net intercompany payable position and other immaterial amounts. In addition, certain of our other foreign subsidiaries had open contracts with Russian customers that were subsequently cancelled for which revenue had been previously recognized over time utilizing the percentage of completion ("POC") method. As a result of the above, in the first quarter of 2022 we recorded a $20.2 million pre-tax charge ($21.0 million after-tax) to reserve the asset positions of our Russian subsidiary (excluding cash) as of March 31, 2022, to record contra-revenue for previously recognized revenue and estimated cancellation fees on open contracts that were previously accounted for under POC and subsequently canceled, to establish a reserve for the estimated cost to exit the operations of our Russian subsidiary and to record a reserve for our estimated financial exposure on contracts that have or are anticipated to be cancelled. We reevaluated our financial exposure as of June 30, 2022 and September 30, 2022, and concluded that the reserve recorded as of March 31, 2022 is sufficient and no material changes to reserves were needed.

The following table presents the above impacts of the Russia pre-tax charge:

(Amounts in thousands)	Nine Months Ended September 30, 2022 Flowserve Pump Division	Flow Control Division	Consolidated Total
Sales	$ (5,429)	$ (2)	$ (5,431)
Cost of sales ("COS")	3,510	1,112	4,622
Gross loss	(8,939)	(1,114)	(10,053)
Selling, general and administrative expense ("SG&A")	9,111	1,082	10,193
Operating loss	$ (18,050)	$ (2,196)	$ (20,246)

We continue to monitor the situation involving Russia and Ukraine and its impact on the rest of our global business. This includes the macroeconomic impact, including with respect to global supply chain issues and inflationary pressures. To date, these impacts have not been material to our business and we do not currently expect that any incremental impact in future quarters, including any financial impacts caused by our cancellation of customer contracts and ceasing of operations in Russia, will be material to the Company.

Prior Period Lease Accounting Correction - In conjunction with our close process for the third quarter of 2022, the Company identified an accounting error related to certain operating real estate leases that have escalating rent payments which were not correctly recorded on a straight-line basis in the amount of $6.4 million. Approximately $5.8 million of the error impacted the Company’s condensed consolidated statements of income prior to adoption of ASU No. 2016-02, Leases (Topic 842) in 2019 and the remaining immaterial amount impacted each period subsequent to adoption. To correct the cumulative impact of the error the Company recorded an adjustment of $6.4 million of incremental operating lease expense in the third quarter of 2022 ($5.5 million classified as SG&A and $0.9 million classified as COS), with the offsetting adjustment to reduce operating lease right-of-use assets, net on our condensed consolidated balance sheet for the period ended September 30, 2022. There was no impact to our condensed statements of cash flows as a result of the correction of the error.

Accounting Developments

Pronouncements Not Yet Implemented

In October 2021, the FASB issued ASU No. 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." The amendments in this Update improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. We do not expect the impact of this ASU to be material.

In November 2021, the FASB issued ASU No. 2021-10, "Government Assistance (Topic 832)." The amendments in this ASU do not change GAAP and, therefore, are not expected to result in a significant change in practice. Rather, the amendments aim to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The amendments are effective for annual periods beginning after December 15, 2021 and can be applied either prospectively or retrospectively. We do not expect the impact of this ASU to be material.

In March 2022, the FASB issued ASU No. 2022-02, "Troubled Debt Restructurings and Vintage Disclosures." The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the Current Expected Credit Loss ("CECL") model and enhance the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively. We are evaluating the impact of this ASU on our disclosures.

In September 2022, the FASB issued ASU No. 2022-04, "Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations." The amendments require a buyer that uses supplier finance programs to make annual disclosures about the program’s key terms, the balance sheet presentation of related amounts, the confirmed amount outstanding at the end of the period, and associated roll-forward information. Only the amount outstanding at the end of the period must be disclosed in interim periods. The amendments are effective for all entities for fiscal years beginning after December 15, 2022 on a retrospective basis, including interim periods within those fiscal years, except for the requirement to disclose roll-forward information, which is effective prospectively for fiscal years beginning after December 15, 2023. We are evaluating the impact of this ASU on our disclosures.

2. Revenue Recognition

The majority of our revenues relate to customer orders that typically contain a single commitment of goods or services which have lead times under a year. Longer lead time, more complex contracts with our customers typically have multiple commitments of goods and services, including any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services and parts related to the performance of such products. Control transfers over time when the customer is able to direct the use of and obtain substantially all of the benefits of the asset.

Our primary method for recognizing revenue over time is the POC method. Revenue from products and services transferred to customers over time accounted for approximately 12% and 15% of total revenue for the three month period ended September 30, 2022 and 2021, respectively, and 12% and 15% for the nine month period ended September 30, 2022 and 2021, respectively. If control does not transfer over time, then control transfers at a point in time. We recognize revenue at a point in time at the level of each performance obligation based on the evaluation of certain indicators of control transfer, such as title transfer, risk of loss transfer, customer acceptance and physical possession. Revenue from products and services transferred to customers at a point in time accounted for approximately 88% and 85% of total revenue for the three month period ended September 30, 2022 and 2021, respectively, and 88% and 85% for the nine month period ended September 30, 2022 and 2021, respectively. Refer to Note 3 to our consolidated financial statements included in our 2021 Annual Report for a more comprehensive discussion of our policies and accounting practices of revenue recognition.

Disaggregated Revenue

We conduct our operations through two business segments based on the type of product and how we manage the business:

- Flowserve Pump Division ("FPD") designs and manufactures custom, highly-engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts and related services; and
- Flow Control Division ("FCD") designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products and related equipment.

Our revenue sources are derived from our original equipment manufacturing and our aftermarket sales and services. Our original equipment revenues are generally related to originally designed, manufactured, distributed and installed equipment that can range from pre-configured, short-cycle products to more customized, highly-engineered equipment ("Original Equipment"). Our aftermarket sales and services are derived from sales of replacement equipment, as well as maintenance, advanced diagnostic, repair and retrofitting services ("Aftermarket"). Each of our two business segments generate Original Equipment and Aftermarket revenues.

The following tables present our customer revenues disaggregated by revenue source:

	Three Months Ended September 30, 2022		
(Amounts in thousands)	FPD	FCD	Total
Original Equipment	$ 196,539	$ 215,550	$ 412,089
Aftermarket	394,807	65,985	460,792
	$ 591,346	$ 281,535	$ 872,881

	Three Months Ended September 30, 2021		
	FPD	FCD	Total
Original Equipment	$ 223,358	$ 201,890	$ 425,248
Aftermarket	377,750	63,120	440,870
	$ 601,108	$ 265,010	$ 866,118

(Amounts in thousands)	Nine Months Ended September 30, 2022		
	FPD	FCD	Total
Original Equipment	$ 609,640	$ 596,989	$ 1,206,629
Aftermarket	1,170,117	199,415	1,369,532
	$ 1,779,757	$ 796,404	$ 2,576,161

	Nine Months Ended September 30, 2021		
	FPD	FCD	Total
Original Equipment	$ 657,910	$ 608,707	$ 1,266,617
Aftermarket	1,162,798	192,189	1,354,987
	$ 1,820,708	$ 800,896	$ 2,621,604

Our customer sales are diversified geographically. The following tables present our revenues disaggregated by geography, based on the shipping addresses of our customers:

(Amounts in thousands)	Three Months Ended September 30, 2022		
	FPD	FCD	Total
North America(1)	$ 249,968	$ 117,262	$ 367,230
Latin America(2)	49,063	6,959	56,022
Middle East and Africa	90,598	23,994	114,592
Asia Pacific	89,794	80,770	170,564
Europe	111,923	52,550	164,473
	$ 591,346	$ 281,535	$ 872,881

	Three Months Ended September 30, 2021		
	FPD	FCD	Total
North America(1)	$ 230,130	$ 95,854	$ 325,984
Latin America(2)	63,443	7,320	70,763
Middle East and Africa	71,296	24,271	95,567
Asia Pacific	117,424	84,267	201,691
Europe	118,815	53,298	172,113
	$ 601,108	$ 265,010	$ 866,118

(Amounts in thousands)	Nine Months Ended September 30, 2022 FPD	FCD	Total
North America(1)	$ 754,337	$ 344,690	$ 1,099,027
Latin America(2)	144,974	17,463	162,437
Middle East and Africa	247,205	67,392	314,597
Asia Pacific	288,971	220,980	509,951
Europe	344,270	145,879	490,149
	$ 1,779,757	$ 796,404	$ 2,576,161

	Nine Months Ended September 30, 2021 FPD	FCD	Total
North America(1)	$ 697,712	$ 284,217	$ 981,929
Latin America(2)	157,703	23,014	180,717
Middle East and Africa	223,502	78,503	302,005
Asia Pacific	361,450	251,864	613,314
Europe	380,341	163,298	543,639
	$ 1,820,708	$ 800,896	$ 2,621,604

(1) North America represents the United States and Canada.
(2) Latin America includes Mexico.

On September 30, 2022, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately $597 million. We estimate recognition of approximately $155 million of this amount as revenue in the remainder of 2022 and an additional $442 million in 2023 and thereafter.

Contract Balances

We receive payment from customers based on a contractual billing schedule and specific performance requirements as established in our contracts. We record billings as accounts receivable when an unconditional right to consideration exists. A contract asset represents revenue recognized in advance of our right to receive payment under the terms of a contract. A contract liability represents our right to receive payment in advance of revenue recognized for a contract.

The following tables present beginning and ending balances of contract assets and contract liabilities, current and long-term, for the nine months ended September 30, 2022 and 2021:

(Amounts in thousands)	Contract Assets, net (Current)	Long-term Contract Assets, net(1)	Contract Liabilities (Current)	Long-term Contract Liabilities(2)
Beginning balance, January 1, 2022	$ 195,598	$ 426	$ 202,965	$ 464
Revenue recognized that was included in contract liabilities at the beginning of the period	—	—	(133,730)	—
Revenue recognized in the period in excess of billings	417,430	—	—	—
Billings arising during the period in excess of revenue recognized	—	—	155,584	7
Amounts transferred from contract assets to receivables	(392,199)	(1,406)	—	—
Currency effects and other, net	(15,593)	987	(8,725)	(38)
Ending balance, September 30, 2022	$ 205,236	$ 7	$ 216,094	$ 433

(Amounts in thousands)	Contract Assets, net (Current)	Long-term Contract Assets, net(1)	Contract Liabilities (Current)	Long-term Contract Liabilities(2)
Beginning balance, January 1, 2021	$ 277,734	$ 1,139	$ 194,227	$ 822
Revenue recognized that was included in contract liabilities at the beginning of the period	—	—	(137,305)	—
Revenue recognized in the period in excess of billings	539,813	—	—	—
Billings arising during the period in excess of revenue recognized	—	—	145,369	—
Amounts transferred from contract assets to receivables	(563,145)	(61)	—	—
Currency effects and other, net	(18,485)	(109)	(3,188)	(40)
Ending balance, September 30, 2021	$ 235,917	$ 969	$ 199,103	$ 782

(1) Included in other assets, net.
(2) Included in retirement obligations and other liabilities.

3. Allowance for Expected Credit Losses

The allowance for credit losses is an estimate of the credit losses expected over the life of our financial assets and instruments. We assess and measure expected credit losses on a collective basis when similar risk characteristics exist, including market, geography, credit risk and remaining duration. Financial assets and instruments that do not share risk characteristics are evaluated on an individual basis. Our estimate of the allowance is assessed and quantified using internal and external valuation information relating to past events, current conditions and reasonable and supportable forecasts over the contractual terms of an asset.

Our primary exposure to expected credit losses is through our trade receivables and contract assets. For these financial assets, we record an allowance for expected credit losses that, when deducted from the gross asset balance, presents the net amount expected to be collected. Primarily, our experience of historical credit losses provides the basis for our estimation of the allowance. We estimate the allowance based on an aging schedule and according to historical losses as determined from our history of billings and collections. Additionally, we adjust the allowance for factors that are specific to our customers' credit risk such as financial difficulties, liquidity issues, insolvency, and country and geopolitical risks. We also consider both the current and forecasted macroeconomic conditions as of the reporting date. As identified and needed, we adjust the allowance and recognize adjustments in the income statement each period. Trade receivables are written off against the allowance in the period when the receivable is deemed to be uncollectible. Subsequent recoveries of previously written off amounts are reflected as a reduction to credit impairment losses in the condensed consolidated statements of income.

Contract assets represent a conditional right to consideration for satisfied performance obligations that become a receivable when the conditions are satisfied. Generally, contract assets are recorded when contractual billing schedules differ from revenue recognition based on timing and are managed through the revenue recognition process. Based on our historical credit loss experience, the current expected credit loss for contract assets is estimated to be approximately 1% of the asset balance.

The following table presents the changes in the allowance for expected credit losses for our trade receivables and contract assets for the nine months ended September 30, 2022 and 2021:

(Amounts in thousands)	Trade receivables	Contract assets
Beginning balance, January 1, 2022	$ 74,336	$ 2,393
Charges to cost and expenses, net of recoveries	12,652	1,243
Write-offs	(792)	—
Currency effects and other, net	(4,095)	363
Ending balance, September 30, 2022	$ 82,101	$ 3,999
Beginning balance, January 1, 2021	$ 75,176	$ 3,205
Charges to cost and expenses, net of recoveries	4,234	—
Write-offs	(2,015)	—
Currency effects and other, net	(1,429)	(427)
Ending balance, September 30, 2021	$ 75,966	$ 2,778

Our allowance on long-term receivables, included in other assets, net, represent receivables with collection periods longer than 12 months and the balance primarily consists of reserved receivables associated with the national oil company in Venezuela. The following table presents the changes in the allowance for long-term receivables for the nine months ended September 30, 2022 and 2021:

(Amounts in thousands)	2022	2021
Balance at January 1	$ 67,696	$ 67,842
Currency effects and other, net	(1,486)	(145)
Balance at September 30	$ 66,210	$ 67,697

We also have exposure to credit losses from off-balance sheet exposures, such as financial guarantees and standby letters of credit, where we believe the risk of loss is immaterial to our financial statements as of September 30, 2022.

4. Stock-Based Compensation Plans

We maintain the Flowserve Corporation 2020 Long-Term Incentive Plan (“2020 Plan”), which is a shareholder approved plan authorizing the issuance of 12,500,000 shares of our common stock in the form of restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), incentive stock options, non-statutory stock options, stock appreciation rights and bonus stock. Of the shares of common stock authorized under the 2020 Plan, 9,733,171 were available for issuance as of September 30, 2022. Restricted Shares primarily vest over a three year period. Restricted Shares granted to employees who retire and have achieved at least 55 years of age and 10 years of service continue to vest over the original vesting period ("55/10 Provision"). As of September 30, 2022, 114,943 stock options were outstanding. No stock options were granted or vested during the nine months ended September 30, 2022 and 2021.

Restricted Shares – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares, except for awards related to the 55/10 Provision which are expensed in the period granted. We had unearned compensation of $26.5 million and $24.2 million at September 30, 2022 and December 31, 2021, respectively, which is expected to be recognized over a remaining weighted-average period of approximately one year. These amounts will be recognized into net earnings in prospective periods as the awards vest. The total fair value of Restricted Shares vested during the three months ended September 30, 2022 and 2021 was $0.1 million and $0.2 million, respectively. The total fair value of Restricted Shares vested during the nine months ended September 30, 2022 and 2021 was $22.6 million and $24.6 million**,** respectively.

We recorded stock-based compensation expense of $5.3 million ($6.9 million pre-tax) and $5.5 million ($7.1 million pre-tax) for the three months ended September 30, 2022 and 2021, respectively. We recorded stock-based compensation expense of

$18.4 million ($23.8 million pre-tax) and $18.2 million ($23.6 million pre-tax) for the nine months ended September 30, 2022 and 2021, respectively.

The following table summarizes information regarding Restricted Shares:

	Nine Months Ended September 30, 2022	
	Shares	Weighted Average Grant-Date Fair Value
Number of unvested shares:		
Outstanding as of January 1, 2022	1,671,011	$ 43.06
Granted	974,258	32.90
Vested	(525,948)	43.01
Forfeited	(237,876)	44.75
Outstanding as of September 30, 2022	1,881,445	$ 37.60

Unvested Restricted Shares outstanding as of September 30, 2022 included approximately 481,000 units with performance-based vesting provisions issuable in common stock and vest upon the achievement of pre-defined performance metrics. Targets for outstanding performance awards are based on our average return on invested capital, total shareholder return ("TSR") or free cash flow as a percent of net income over a three-year period. Performance units issued in 2022 and 2021 include a secondary measure, relative TSR, which can increase or decrease the number of vesting units by 15% depending on the Company's performance versus peers. Performance units issued in 2020 have a vesting percentage between 0% and 200%, while the performance units issued in 2022 and 2021 have a vesting percentage up to 230%. Compensation expense is recognized ratably over a cliff-vesting period of 36 months, based on the fair value of our common stock on the date of grant, adjusted for actual forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets for all performance-based units granted except for the TSR-based units. Vesting provisions range from 0 to approximately 1,059,000 shares based on performance targets. As of September 30, 2022, we estimate vesting of approximately 410,000 shares based on expected achievement of performance targets.

5. Derivative Instruments and Hedges

Our risk management and foreign currency derivatives and hedging policy specifies the conditions under which we may enter into derivative contracts. See Notes 1 and 9 to our consolidated financial statements included in our 2021 Annual Report and Note 7 of this Quarterly Report for additional information on our derivatives. We enter into foreign exchange forward contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction. We have not elected hedge accounting for our foreign exchange forward contracts and the changes in the fair values are recognized immediately in our condensed consolidated statements of income.

Foreign exchange forward contracts with third parties had a notional value of $399.6 million and $425.2 million at September 30, 2022 and December 31, 2021, respectively. At September 30, 2022, the length of foreign exchange forward contracts currently in place ranged from 5 days to 29 months.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under foreign exchange forward contracts agreements and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

The fair values of foreign exchange forward contracts are summarized below:

(Amounts in thousands)	September 30, 2022	December 31, 2021
Current derivative assets	$ 5,016	$ 740
Noncurrent derivative assets	—	2
Current derivative liabilities	7,051	2,924
Noncurrent derivative liabilities	315	82

Current and noncurrent derivative assets are reported in our condensed consolidated balance sheets in prepaid expenses and other and other assets, net, respectively. Current and noncurrent derivative liabilities are reported in our condensed consolidated balance sheets in accrued liabilities and retirement obligations and other liabilities, respectively.

The impact of net changes in the fair values of foreign exchange forward contracts are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2022	2021	2022	2021
Gains (losses) recognized in income	$ 1,245	$ (75)	$ 1,478	$ 1,718

Gains and losses recognized in our condensed consolidated statements of income for foreign exchange forward contracts are classified as other income (expense), net.

As a means of managing the volatility of foreign currency exposure with the Euro/U.S. dollar exchange rate, we enter into cross-currency swap agreements as a hedge of our Euro investment in certain of our international subsidiaries. Accordingly, on April 14, 2021 and March 9, 2021, we entered into cross currency swap agreements, with both having termination dates of October 1, 2030 and the March 9, 2021 cross currency swap having an early termination date of March 11, 2025. Also, during the third quarter of 2020 we entered into a cross currency swap agreement with a termination date of October 1, 2030 and an early termination date of September 22, 2025. The swap agreements are designated as net investment hedges and as of September 30, 2022 the combined notional value of these swaps was €423.2 million. The swaps are classified as Level II under the fair value hierarchy.

The fair values of our cross-currency swaps are summarized below:

(Amounts in thousands)	September 30, 2022	December 31, 2021
Other assets, net	$ 96,798	$ 23,129

We exclude the interest accruals on the swaps from the assessment of hedge effectiveness and recognize the interest accruals in earnings within interest expense. For each reporting period, the change in the fair value of the swaps attributable to changes in the spot rate and differences between the change in the fair value of the excluded components and the amounts recognized in earnings under the swap accrual process are reported in accumulated other comprehensive loss ("AOCL") on our consolidated balance sheet. For the three and nine months ending September 30, 2022, an interest accrual of $2.3 million and $6.4 million, respectively, was recognized within interest expense in our condensed consolidated statements of income. For the three and nine months ending September 30, 2021, an interest accrual of $1.9 million and $4.3 million, respectively, was recognized within interest expense.

The cumulative net investment hedge (gains) losses, net of deferred taxes, under cross-currency swaps recorded in AOCL on our condensed consolidated balance sheet are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2022	2021	2022	2021
(Gain) loss-included component (1)	$ (22,107)	$ (8,869)	$ (66,363)	$ (8,684)
(Gain) loss-excluded component (2)	839	(3,647)	(7,669)	243
(Gain) loss recognized in AOCL	$ (21,268)	$ (12,516)	$ (74,032)	$ (8,441)

(1) Change in the fair value of the swaps attributable to changes in spot rates.
(2) Change in the fair value of the swaps due to changes other than those attributable to spot rates.

In March 2015, we designated €255.7 million of our 1.25% EUR 2022 Senior Notes ("2022 Euro Senior Notes") as a net investment hedge of our Euro investment in certain of our international subsidiaries. On September 22, 2020, we increased the designated hedged value on the 2022 Euro Senior Notes to €336.3 million, which reflected the remaining balance of the 2022 Euro Senior Notes. For each reporting period, the change in the carrying value due to the remeasurement of the effective portion was reported in AOCL on our condensed consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, was recognized in other income (expense), net in our condensed consolidated statements of income. As a result of the redemption of our 2022 Euro Senior Notes in the first quarter of 2021, we dedesignated the hedged value of our net investment hedge.

Prior to the dedesignation, the cumulative impact recorded in AOCL on our condensed consolidated balance sheet from the change in carrying value due to the remeasurement of the effective portion of the net investment hedge is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2022	2021	2022	2021
Loss recognized in AOCL	$ —	$ —	$ —	$ 29,554

We use the spot method to measure the effectiveness of our net investment hedges and evaluate the effectiveness on a prospective basis at the beginning of each quarter. We did not record any ineffectiveness during the three and nine months ended September 30, 2022 and 2021, respectively.

6. Debt

Debt, including finance lease obligations, net of discounts and debt issuance costs, consisted of:

(Amounts in thousands, except percentages)	September 30, 2022	December 31, 2021
3.50% USD Senior Notes due October 1, 2030, net of unamortized discount and debt issuance costs of $5,195 and $5,611, respectively	$ 494,805	$ 494,389
2.80% USD Senior Notes due January 15, 2032, net of unamortized discount and debt issuance costs of $5,865 and $6,273, respectively	494,135	493,727
Term Loan Facility, interest rate of 4.92% at September 30, 2022 and 1.45% at December 31, 2021, net of debt issuance costs of $492 and $639, respectively	269,508	291,861
Finance lease obligations and other borrowings	21,762	22,851
Debt and finance lease obligations	1,280,210	1,302,828
Less amounts due within one year	47,962	41,058
Total debt due after one year	$ 1,232,248	$ 1,261,770

Senior Notes

On March 19, 2021, we redeemed the remaining $400.9 million of our 2022 Euro Senior Notes and recorded a loss on early extinguishment of $7.6 million in the first quarter of 2021, which included the impact of a $6.6 million make-whole premium.

Senior Credit Facility

As discussed in Note 13 to our consolidated financial statements included in our 2021 Annual Report, we amended our credit agreement ("Amended and Restated Credit Agreement") under our Senior Credit Facility ("Credit Facility") with Bank of America, N.A. ("Administrative Agent") and the other lenders to provide greater flexibility in maintaining adequate liquidity and access to available borrowings. The Amended and Restated Credit Agreement, (i) retained, from the previous credit agreement, the $800.0 million unsecured Revolving Credit Facility, which includes a $750.0 million sublimit for the issuance of letters of credit and a $30.0 million sublimit for swing line loans, (ii) provides for an up to $300 million unsecured Term Loan Facility (the "Term Loan"), (iii) extends the maturity date of the agreement to September 13, 2026, (iv) reduces commitment fees, (v) extends net leverage ratio covenant definition through the maturity of the agreement, and (vi) provides the ability to make certain adjustments to the otherwise applicable commitment fee, interest rate and letter of credit fees based on the Company's performance against to-be-established key performance indicators with respect to certain of the Company's environmental, social and governance targets.

The interest rates per annum applicable to the Revolving Credit Facility are unchanged under the Amended and Restated Credit Agreement. The interest rates per annum applicable to the Credit Facility, other than with respect to swing line loans, are LIBOR plus between 1.000% to 1.750%, depending on our debt rating by either Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Financial Services LLC ("S&P"), or, at our option, the Base Rate (as defined in the Amended and Restated Credit Agreement) plus between 0.000% to 0.750% depending on our debt rating by either Moody's or S&P. At

September 30, 2022, the interest rate on the Revolving Credit Facility was LIBOR plus 1.375% in the case of LIBOR loans and the Base Rate plus 0.375% in the case of Base Rate loans. In addition, a commitment fee is payable quarterly in arrears on the daily unused portions of the Credit Facility. The commitment fee will be between 0.080% and 0.250% of unused amounts under the Credit Facility depending on our debt rating by either Moody's or S&P. The commitment fee was 0.175% (per annum) during the three and nine months ended September 30, 2022.

Under the terms and conditions of the Amended and Restated Credit Agreement, interest rates per annum applicable to the Term Loan are stated as LIBOR plus between 0.875% to 1.625%, depending on the Company's debt rating by either Moody's

or S&P, or, at the option of the Company, the Base Rate plus between 0.000% to 0.625% depending on the Company's debt rating by either Moody's or S&P.

As of September 30, 2022 and December 31, 2021, we had no revolving loans outstanding and we had outstanding letters of credit of $56.9 million and $78.3 million at September 30, 2022 and December 31, 2021, respectively. On October 14, 2022, the Company borrowed $45.0 million on the Revolving Credit Facility for general corporate purposes. After consideration of the financial covenants under our Senior Credit Facility and outstanding letters of credit, as of September 30, 2022, the amount available for borrowings was limited to $157.3 million. As of December 31, 2021, the amount available for borrowings under our Revolving Credit Facility was $614.2 million.

Our compliance with applicable financial covenants under the Senior Notes and Credit Facility are tested quarterly. We were in compliance with all applicable covenants as of September 30, 2022. We have scheduled repayments on our Term Loan of $10.0 million due in each of the subsequent four quarters through September 30, 2023.

7. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. Assets and liabilities recorded at fair value in our condensed consolidated balance sheets are categorized by hierarchical levels based upon the level of judgment associated with the inputs used to measure their fair values. Recurring fair value measurements are limited to investments in derivative instruments. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivatives are included in Note 5.

The carrying value of our financial instruments as reflected in our condensed consolidated balance sheets approximates fair value, with the exception of our long-term debt. The estimated fair value of our long-term debt, excluding the Senior Notes, approximates the carrying value and is determined using Level II inputs under the fair value hierarchy. The carrying value of our debt is included in Note 6. The estimated fair value of our Senior Notes at September 30, 2022 was $769.0 million compared to the carrying value of $988.9 million. The estimated fair value of the Senior Notes is based on Level I quoted market rates. The carrying amounts of our other financial instruments (e.g., cash and cash equivalents, accounts receivable, net, accounts payable and short-term debt) approximated fair value due to their short-term nature at September 30, 2022 and December 31, 2021.

8. Inventories

Inventories, net consisted of the following:

(Amounts in thousands)	September 30, 2022	December 31, 2021
Raw materials	$ 342,308	$ 318,348
Work in process	295,425	242,143
Finished goods	236,584	213,096
Less: Excess and obsolete reserve	(94,868)	(95,300)
Inventories, net	$ 779,449	$ 678,287

9. Earnings Per Share

The following is a reconciliation of net earnings of Flowserve Corporation and weighted average shares for calculating net earnings per common share. Earnings per weighted average common share outstanding was calculated as follows:

	Three Months Ended September 30,	
(Amounts in thousands, except per share data)	2022	2021
Net earnings of Flowserve Corporation	$ 38,400	$ 49,785
Dividends on restricted shares not expected to vest	—	—
Earnings attributable to common and participating shareholders	$ 38,400	$ 49,785
Weighted average shares:		
Common stock	130,662	130,210
Participating securities	41	32
Denominator for basic earnings per common share	130,703	130,242
Effect of potentially dilutive securities	699	547
Denominator for diluted earnings per common share	131,402	130,789
Earnings per common share:		
Basic	$ 0.29	$ 0.38
Diluted	0.29	0.38

	Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	2022	2021
Net earnings of Flowserve Corporation	$ 67,359	$ 109,218
Dividends on restricted shares not expected to vest	—	—
Earnings attributable to common and participating shareholders	$ 67,359	$ 109,218
Weighted average shares:		
Common stock	130,566	130,298
Participating securities	38	27
Denominator for basic earnings per common share	130,604	130,325
Effect of potentially dilutive securities	629	542
Denominator for diluted earnings per common share	131,233	130,867
Earnings per common share:		
Basic	$ 0.52	$ 0.84
Diluted	0.51	0.83

Diluted earnings per share above is based upon the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options and Restricted Shares.

10. Legal Matters and Contingencies

Asbestos-Related Claims

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and/or distributed by our heritage companies in the past. Typically, these lawsuits have been brought against multiple defendants in state and federal courts. While the overall number of asbestos-related claims in which we or our predecessors have been named has generally declined in recent years, there can be no assurance that this trend will continue, or that the average cost per claim to us will not further increase. Asbestos-containing materials incorporated into any such products were encapsulated and used as internal components of process equipment, and we do not believe that significant emission of asbestos fibers occurred during the use of this equipment.

Our practice is to vigorously contest and resolve these claims, and we have been successful in resolving a majority of claims with little or no payment, other than legal fees. Activity related to asbestos claims during the periods indicated was as follows:

	Three Months Ended September 30, 2022	2021	Nine Months Ended September 30, 2022	2021
Beginning claims(1)	8,917	8,559	8,712	8,366
New claims	568	625	1,863	1,857
Resolved claims	(624)	(645)	(1,714)	(1,668)
Other(2)	(4)	82	(4)	66
Ending claims(1)	8,857	8,621	8,857	8,621

(1) Beginning and ending claims data in each period excludes inactive claims, as the Company considers it unlikely that inactive cases will be pursued further by the respective plaintiffs. A claim is classified as inactive either due to inactivity over a period of three years or if designated as inactive by the applicable court.

(2) Represents the net change in claims as a result of the reclassification of active cases as inactive and inactive cases as active during the period indicated. Cases moved from active to inactive status are removed from the claims count without being accounted for as a "Resolved claim", and cases moved from inactive status to active status are added back to the claims count without being accounted for as a “New claim”.

The following table presents the changes in the estimated asbestos liability:

(Amounts in thousands)	2022	2021
Beginning balance, January 1,	$ 94,423	$ 99,530
Asbestos liability adjustments, net	14,782	4,783
Cash payment activity	(4,231)	(5,681)
Other, net	(3,350)	(931)
Ending balance, September 30,	$ 101,624	$ 97,701

During the three and nine months ended September 30, 2022 the Company incurred expenses (net of insurance) of approximately $9.4 million and $13.0 million, respectively, compared to $5.6 million and $10.1 million, respectively, for the same periods in 2021 to defend, resolve or otherwise dispose of outstanding claims, including legal and other related expenses. During the three months ended September 30, 2022 and 2021, the Company updated its annual actuarial study to estimate the liability for pending and future claims not yet asserted, and which are probable and estimable and recorded the expenses associated with the true-up to the actuarial study. These expenses are included within SG&A in our condensed consolidated statements of income.

The Company had cash inflows (outflows) (net of insurance and/or indemnity) to defend, resolve or otherwise dispose of outstanding claims, including legal and other related expenses of approximately $0.7 million and $(6.8) million, respectively, during the nine months ended September 30, 2022 and 2021, respectively.

Historically, a high percentage of resolved claims have been covered by applicable insurance or indemnities from other companies, and we believe that a substantial majority of existing claims should continue to be covered by insurance or indemnities, in whole or in part.

We believe that our reserve for asbestos claims and the receivable for recoveries from insurance carriers that we have recorded for these claims reflects reasonable and probable estimates of these amounts. Our estimate of our ultimate exposure for asbestos claims, however, is subject to significant uncertainties, including the timing and number and types of new claims, unfavorable court rulings, judgments or settlement terms and ultimate costs to settle. Additionally, the continued viability of carriers may also impact the amount of probable insurance recoveries. We believe that these uncertainties could have a material adverse impact on our business, financial condition, results of operations and cash flows, though we currently believe the likelihood is remote.

Additionally, we have claims pending against certain insurers that, if resolved more favorably than reflected in the recorded receivables, would result in discrete gains in the applicable quarter.

Other Claims

We are also a defendant in a number of other lawsuits, including product liability claims, that are insured, subject to the applicable deductibles, arising in the ordinary course of business, and we are also involved in other uninsured routine litigation incidental to our business. We currently believe none of such litigation, either individually or in the aggregate, is material to our business, operations or overall financial condition. However, litigation is inherently unpredictable, and resolutions or dispositions of claims or lawsuits by settlement or otherwise could have an adverse impact on our financial position, results of operations or cash flows for the reporting period in which any such resolution or disposition occurs.

Although none of the aforementioned potential liabilities can be quantified with absolute certainty except as otherwise indicated above, we have established or adjusted reserves covering exposures relating to contingencies, to the extent believed to be reasonably estimable and probable based on past experience and available facts. While additional exposures beyond these reserves could exist, they currently cannot be estimated. We will continue to evaluate and update the reserves as necessary and appropriate.

11. Pension and Postretirement Benefits

Components of the net periodic cost for pension and postretirement benefits for the three months ended September 30, 2022 and 2021 were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
(Amounts in millions)	2022	2021	2022	2021	2022	2021
Service cost	$ 6.1	$ 6.3	$ 1.3	$ 1.8	$ —	$ —
Interest cost	3.3	2.9	1.3	1.3	0.1	0.1
Expected return on plan assets	(6.3)	(6.3)	(1.2)	(1.5)	—	—
Amortization of unrecognized prior service cost and other costs	—	—	(0.1)	—	—	—
Amortization of unrecognized net loss	0.9	1.9	0.5	1.1	0.1	—
Net periodic cost recognized	$ 4.0	$ 4.8	$ 1.8	$ 2.7	$ 0.2	$ 0.1

Components of the net periodic cost for pension and postretirement benefits for the nine months ended September 30, 2022 and 2021 were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
(Amounts in millions)	2022	2021	2022	2021	2022	2021
Service cost	$ 18.5	$ 18.9	$ 4.3	$ 5.5	$ —	$ —
Interest cost	9.9	8.9	4.6	4.1	0.3	0.3
Expected return on plan assets	(19.0)	(19.0)	(4.1)	(4.6)	—	—
Amortization of unrecognized prior service cost and other costs	0.1	0.1	0.2	0.2	0.1	0.1
Amortization of unrecognized net loss	2.6	5.8	1.9	3.3	0.2	—
Net periodic cost recognized	$ 12.1	$ 14.7	$ 6.9	$ 8.5	$ 0.6	$ 0.4

The components of net periodic cost for pension and postretirement benefits other than service costs are included in other income (expense), net in our condensed consolidated statements of income.

12. Shareholders' Equity

Dividends – Generally, our dividend date-of-record is in the last month of the quarter, and the dividend is paid the following month. Any subsequent dividends will be reviewed by our Board of Directors and declared in its discretion.

Dividends declared per share were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Dividends declared per share	$ 0.20	$ 0.20	$ 0.60	$ 0.60

Share Repurchase Program – In 2014, our Board of Directors approved a $500.0 million share repurchase authorization. Our share repurchase program does not have an expiration date and we reserve the right to limit or terminate the repurchase program at any time without notice.

We had no repurchases of shares of our outstanding common stock for both of the three months ended September 30, 2022 and 2021. We had no repurchases of shares of our outstanding common stock during the nine months ended September 30, 2022, compared to 440,000 shares repurchased for $17.5 million for the same period in 2021. As of September 30, 2022, we had $96.1 million of remaining capacity under our current share repurchase program.

13. Income Taxes

For the three months ended September 30, 2022, we earned $42.5 million before taxes and recorded a provision for income taxes of $1.8 million resulting in an effective tax rate of 4.2%. For the nine months ended September 30, 2022, we earned $89.7 million before taxes and recorded a provision for income taxes of $16.6 million resulting in an effective tax rate of 18.5%. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2022 primarily due to the mitigation of previously recorded BEAT liability and the net impact of foreign operations. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2022 primarily due to the mitigation of previously recorded BEAT liability, the current and anticipated tax impact of the Russia-Ukraine conflict on our business and the net impact of foreign operations.

For the three months ended September 30, 2021, we earned $41.4 million before taxes and recorded a benefit from income taxes of $10.4 million resulting in an effective tax rate of (25.2)%. For the nine months ended September 30, 2021, we earned $112.8 million before taxes and recorded a benefit from income taxes of $3.9 million resulting in an effective tax rate of (3.5)%. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2021 primarily due to the net impact of foreign operations and the reversal of certain deferred tax liabilities as a result of legal entity restructuring of foreign holding companies. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2021, primarily due to higher withholding taxes related to transactions with and amongst various foreign subsidiaries, offset by the net impact of foreign operations, the reversal of certain deferred tax liabilities as a result of legal entity restructuring of foreign holding companies and favorable resolution of audits in foreign jurisdictions.

As of September 30, 2022, the amount of unrecognized tax benefits increased by $6.5 million from December 31, 2021. With limited exception, we are no longer subject to U.S. federal income tax audits for years through 2017, state and local income tax audits for years through 2015 or non-U.S. income tax audits for years through 2014. We are currently under examination for various years in Canada, China, Germany, India, Indonesia, Italy, Malaysia, Kenya, Madagascar, Mexico, the Philippines, Saudi Arabia, the U.S. and Venezuela.

It is reasonably possible that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters audited by various taxing authorities. It is also reasonably possible that we will have the statute of limitations close in various taxing jurisdictions within the next 12 months. As such, we estimate we could record a reduction in our tax expense of approximately $14 million within the next 12 months.

The Company maintains a full valuation allowance against the net deferred tax assets in certain foreign tax jurisdictions as of September 30, 2022. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of net deferred tax assets. It is possible that within the next 12 months there may be sufficient positive evidence to release a portion or all of the valuation allowance in certain foreign tax jurisdictions. Release of these valuation allowances would result in a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The timing and amount of the potential valuation allowance release are subject to significant management judgment and the level of profitability achieved.

14. Segment Information

The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the condensed consolidated financial statements:

	Three Months Ended September 30, 2022				
(Amounts in thousands)	FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	$ 591,346	$ 281,535	$ 872,881	$ —	$ 872,881
Intersegment sales	1,264	1,033	2,297	(2,297)	—
Segment operating income	38,912	29,718	68,630	(44,413)	24,217

	Three Months Ended September 30, 2021				
	FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	$ 601,108	$ 265,010	$ 866,118	$ —	$ 866,118
Intersegment sales	731	1,114	1,845	(1,845)	—
Segment operating income	59,071	27,743	86,814	(29,452)	57,362

	Nine Months Ended September 30, 2022				
(Amounts in thousands)	FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	$ 1,779,758	$ 796,403	$ 2,576,161	$ —	$ 2,576,161
Intersegment sales	3,307	2,426	5,733	(5,733)	—
Segment operating income	117,260	75,324	192,584	(100,666)	91,918

	Nine Months Ended September 30, 2021				
	FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	$ 1,820,708	$ 800,896	$ 2,621,604	$ —	$ 2,621,604
Intersegment sales	1,463	2,211	3,674	(3,674)	—
Segment operating income	180,698	89,685	270,383	(84,755)	185,628

15. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in AOCL, net of tax for the three months ended September 30, 2022 and 2021:

	2022				2021			
(Amounts in thousands)	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity (2)	Total	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity (2)	Total
Balance - July 1	$ (536,929)	$ (91,508)	$ (1,278)	$ (629,715)	$ (453,328)	$ (140,405)	$ (271)	$ (594,004)
Other comprehensive income (loss) before reclassifications (3)	(89,282)	7,961	—	(81,321)	(15,561)	2,300	—	(13,261)
Amounts reclassified from AOCL	—	(1,800)	29	(1,771)	—	2,655	(1,347)	1,308
Net current-period other comprehensive income (loss) (3)	(89,282)	6,161	29	(83,092)	(15,561)	4,955	(1,347)	(11,953)
Balance - September 30	$ (626,211)	$ (85,347)	$ (1,249)	$ (712,807)	$ (468,889)	$ (135,450)	$ (1,618)	$ (605,957)

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of $5.9 million and $6.1 million at July 1, 2022 and 2021, respectively, and $5.8 million and $6.1 million at September 30, 2022 and 2021, respectively. Also includes the impacts from the changes in fair value of our cross-currency swaps, which were $21.3 million and $12.5 million for the three months ended September 30, 2022 and 2021, respectively.
(2) Other comprehensive loss before reclassifications and amounts reclassified from AOCL to interest expense related to designated cash flow hedges.
(3) Amounts in parentheses indicate an increase to AOCL.

The following table presents the reclassifications out of AOCL:

		Three Months Ended September 30,	
(Amounts in thousands)	Affected line item in the statement of income	2022(1)	2021(1)
Pension and other postretirement effects			
Amortization of actuarial losses(2)	Other income (expense), net	$ 1,453	$ (2,978)
Prior service costs(2)	Other income (expense), net	134	(149)
	Tax benefit	213	472
	Net of tax	$ 1,800	$ (2,655)
Cash flow hedging activity			
Amortization of Treasury rate lock	Interest income (expense)	$ (38)	$ 1,761
	Tax benefit (expense)	9	(414)
	Net of tax	$ (29)	$ 1,347

(1) Amounts in parentheses indicate decreases to income. None of the reclassified amounts have a noncontrolling interest component.
(2) These AOCL components are included in the computation of net periodic pension cost. See Note 11 for additional details.

The following table presents the changes in AOCL, net of tax for the nine months ended September 30, 2022 and 2021:

	2022				2021			
(Amounts in thousands)	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity (2)	Total	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity (2)	Total
Balance - January 1	$ (456,025)	$ (101,665)	$ (1,336)	$ (559,026)	$ (456,437)	$ (146,723)	$ (488)	$ (603,648)
Other comprehensive income (loss) before reclassifications (3)	(170,187)	22,325	—	(147,862)	(12,452)	3,104	—	(9,348)
Amounts reclassified from AOCL	—	(6,007)	87	(5,920)	—	8,169	(1,130)	7,039
Net current-period other comprehensive income (loss) (3)	(170,187)	16,318	87	(153,782)	(12,452)	11,273	(1,130)	(2,309)
Balance - September 30	$ (626,212)	$ (85,347)	$ (1,249)	$ (712,808)	$ (468,889)	$ (135,450)	$ (1,618)	$ (605,957)

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of $4.6 million and $5.9 million at January 1, 2022 and 2021, respectively, and $5.8 million and $6.1 million at September 30, 2022 and 2021, respectively. Also includes the impacts from the changes in fair value of our cross-currency swaps, which were $56.3 million and $22.3 million for the nine months ended September 30, 2022 and 2021, respectively.
(2) Other comprehensive loss before reclassifications and amounts reclassified from AOCL to interest expense related to designated cash flow hedges.
(3) Amounts in parentheses indicate an increase to AOCL.

The following table presents the reclassifications out of AOCL:

		Nine Months Ended September 30,	
(Amounts in thousands)	Affected line item in the statement of income	2022(1)	2021(1)
Pension and other postretirement effects			
Amortization of actuarial losses(2)	Other income (expense), net	$ 4,653	$ (9,126)
Prior service costs(2)	Other income (expense), net	429	(457)
	Tax benefit	925	1,414
	Net of tax	$ 6,007	$ (8,169)
Cash flow hedging activity			
Amortization of Treasury rate lock	Interest income (expense)	$ (114)	$ 1,478
	Tax benefit (expense)	27	(348)
	Net of tax	$ (87)	$ 1,130

(1) Amounts in parentheses indicate decreases to income. None of the reclassified amounts have a noncontrolling interest component.
(2) These AOCL components are included in the computation of net periodic pension cost. See Note 11 for additional details.

16. Realignment Programs

In the second quarter of 2020, we identified and initiated certain realignment activities to right-size our organizational operations based on the current business environment, with the overall objective to reduce our workforce costs, including manufacturing optimization through the consolidation of certain facilities ("Realignment Program"). The realignment activities consist of restructuring and non-restructuring charges. Restructuring charges represent costs associated with the relocation of certain business activities and facility closures and include related severance costs. Non-restructuring charges are primarily employee severance associated with the workforce reductions. Expenses are primarily reported in cost of sales ("COS") or selling, general and administrative ("SG&A"), as applicable, in our consolidated statements of income. We anticipate a total investment in these activities of approximately $95 million and the vast majority of the charges were incurred in 2020 and 2021 with the remainder to be incurred in 2022. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized and therefore are not included in the above anticipated total investment.

Generally, the aforementioned charges will be paid in cash, except for asset write-downs, which are non-cash charges. The following is a summary of total charges, net of adjustments, incurred related to our Realignment Program:

	Three Months Ended September 30, 2022				
(Amounts in thousands)	FPD	FCD	Subtotal–Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	$ (456)	$ 26	$ (430)	$ —	$ (430)
SG&A	—	2	2	—	2
	$ (456)	$ 28	$ (428)	$ —	$ (428)
Non-Restructuring Charges					
COS	$ 39	$ (4)	$ 35	$ —	$ 35
SG&A	74	5	79	18	97
	$ 113	$ 1	$ 114	$ 18	$ 132
Total Realignment Charges					
COS	$ (417)	$ 22	$ (395)	$ —	$ (395)
SG&A	74	7	81	18	99
Total	$ (343)	$ 29	$ (314)	$ 18	$ (296)

(Amounts in thousands)	Three Months Ended September 30, 2021 FPD	FCD	Subtotal–Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	$ 1,659	$ 185	$ 1,844	$ —	$ 1,844
SG&A	38	(7)	31	—	31
	$ 1,697	$ 178	$ 1,875	$ —	$ 1,875
Non-Restructuring Charges					
COS	$ 614	$ 124	$ 738	$ —	$ 738
SG&A	(290)	6	(284)	621	337
	$ 324	$ 130	$ 454	$ 621	$ 1,075
Total Realignment Charges					
COS	$ 2,273	$ 309	$ 2,582	$ —	$ 2,582
SG&A	(252)	(1)	(253)	621	368
Total	$ 2,021	$ 308	$ 2,329	$ 621	$ 2,950

(Amounts in thousands)	Nine Months Ended September 30, 2022 FPD	FCD	Subtotal–Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	$ 430	$ 97	$ 527	$ —	$ 527
SG&A	—	2	2	—	2
	$ 430	$ 99	$ 529	$ —	$ 529
Non-Restructuring Charges					
COS	$ (550)	$ (41)	$ (591)	$ (61)	$ (652)
SG&A	150	55	205	(248)	(43)
	$ (400)	$ 14	$ (386)	$ (309)	$ (695)
Total Realignment Charges					
COS	$ (120)	$ 56	$ (64)	$ (61)	$ (125)
SG&A	150	57	207	(248)	(41)
Total	$ 30	$ 113	$ 143	$ (309)	$ (166)

(Amounts in thousands)	Nine Months Ended September 30, 2021 FPD	FCD	Subtotal–Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	$ 7,702	$ 655	$ 8,357	$ —	$ 8,357
SG&A	705	(17)	688	—	688
	$ 8,407	$ 638	$ 9,045	$ —	$ 9,045
Non-Restructuring Charges					
COS	$ 6,064	$ 802	$ 6,866	$ 590	$ 7,456
SG&A	205	744	949	4,816	5,765
	$ 6,269	$ 1,546	$ 7,815	$ 5,406	$ 13,221
Total Realignment Charges					
COS	$ 13,766	$ 1,457	$ 15,223	$ 590	$ 15,813
SG&A	910	727	1,637	4,816	6,453
Total	$ 14,676	$ 2,184	$ 16,860	$ 5,406	$ 22,266

The following is a summary of total inception to date charges, net of adjustments, related to the Realignment Program:

	Inception to Date				
(Amounts in thousands)	FPD	FCD	Subtotal–Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	$ 26,306	$ 2,133	$ 28,439	$ —	$ 28,439
SG&A	716	335	1,051	(17)	1,034
	$ 27,022	$ 2,468	$ 29,490	$ (17)	$ 29,473
Non-Restructuring Charges					
COS	$ 24,858	$ 681	$ 25,539	$ 581	$ 26,120
SG&A	11,199	5,317	16,516	21,547	38,063
	$ 36,057	$ 5,998	$ 42,055	$ 22,128	$ 64,183
Total Realignment Charges					
COS	$ 51,164	$ 2,814	$ 53,978	$ 581	$ 54,559
SG&A	11,915	5,652	17,567	21,530	39,097
Total	$ 63,079	$ 8,466	$ 71,545	$ 22,111	$ 93,656

Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include costs related to employee severance at closed facilities, contract termination costs, asset write-downs and other costs. Severance costs primarily include costs associated with involuntary termination benefits. Contract termination costs include costs related to the termination of operating leases or other contract termination costs. Asset write-downs include accelerated depreciation of fixed assets, accelerated amortization of intangible assets, divestiture of certain non-strategic assets and inventory write-downs. Other costs generally include costs related to employee relocation, asset relocation, vacant facility costs (i.e., taxes and insurance) and other charges.

The following is a summary of restructuring charges, net of adjustments, for our restructuring activities related to our Realignment Program:

	Three Months Ended September 30, 2022				
(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	$ (309)	$ —	$ (89)	$ (32)	$ (430)
SG&A	12	—	—	(10)	2
Total	$ (297)	$ —	$ (89)	$ (42)	$ (428)

	Three Months Ended September 30, 2021				
(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	$ (371)	$ —	$ 1,282	$ 933	$ 1,844
SG&A	—	—	—	31	31
Total	$ (371)	$ —	$ 1,282	$ 964	$ 1,875

	Nine Months Ended September 30, 2022				
(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	$ 260	$ —	$ 170	$ 97	$ 527
SG&A	12	—	—	(10)	2
Total	$ 272	$ —	$ 170	$ 87	$ 529

(Amounts in thousands)	Nine Months Ended September 30, 2021 Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	$ 848	$ —	$ 2,623	$ 4,886	$ 8,357
SG&A	168	—	—	520	688
Total	$ 1,016	$ —	$ 2,623	$ 5,406	$ 9,045

The following is a summary of total inception to date restructuring charges, net of adjustments, related to our Realignment Program:

(Amounts in thousands)	Inception to Date Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	$ 16,464	$ 86	$ 4,265	$ 7,624	$ 28,439
SG&A	263	—	14	757	1,034
Total	$ 16,727	$ 86	$ 4,279	$ 8,381	$ 29,473

The following represents the activity, primarily severance charges from reductions in force, related to the restructuring reserves for the nine months ended September 30, 2022 and 2021:

(Amounts in thousands)	2022	2021
Balance at January 1	$ 4,868	$ 18,255
Charges, net of adjustments	359	6,423
Cash expenditures	(2,311)	(16,999)
Other non-cash adjustments, including currency	(1,431)	(1,039)
Balance at September 30	$ 1,485	$ 6,640

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto, and the other financial data included elsewhere in this Quarterly Report. The following discussion should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management’s Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") included in our 2021 Annual Report.

EXECUTIVE OVERVIEW

Our Company

We are a world-leading manufacturer and aftermarket service provider of comprehensive flow control systems. We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers’ critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. We currently employ approximately 15,000 employees in more than 50 countries.

Our business model is significantly influenced by the capital and operating spending of global infrastructure industries for the placement of new products into service and aftermarket services for existing operations. The worldwide installed base of our products is an important source of aftermarket revenue, where products are relied upon to maximize operating time of many key industrial processes. We continue to invest significantly in our aftermarket strategy to provide local support to drive customer investments in our offerings and use of our services to replace or repair installed products. The aftermarket portion of our business also helps provide business stability during various economic periods. The aftermarket service and solutions business, which is primarily served by our network of 156 QRCs located around the globe, provides a variety of service offerings for our customers including spare parts, service solutions, product life cycle solutions and other value-added services. It is generally a higher margin business compared to our original equipment business and a key component of our business strategy.

Our operations are conducted through two business segments that are referenced throughout this MD&A:

- FPD designs and manufactures custom, highly-engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts and related services; and
- FCD designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products and related equipment.

Our business segments share a focus on industrial flow control technology and have a number of common customers. These segments also have complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. Our segments also benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. For example, our segments share leadership for operational support functions, such as sales, research and development, marketing and supply chain.

The reputation of our product portfolio is built on more than 50 well-respected brand names such as Worthington, IDP, Valtek, Limitorque, Durco, Argus, Edward, Valbart and Durametallic, which we believe to be one of the most comprehensive in the industry. Our products and services are sold either directly or through designated channels to more than 10,000 companies, including some of the world’s leading engineering, procurement and construction ("EPC") firms, original equipment manufacturers, distributors and end users.

We continue to leverage our QRC network to be positioned as near to customers as possible for service and support in order to capture valuable aftermarket business. Along with maintaining the local capability to sell, install and service our equipment in remote regions, it is equally imperative to continuously improve our global operations. Despite headwinds caused by the COVID-19 pandemic, we continue to enhance our global supply chain capabilities to increase our ability to meet global customer demands and improve the quality and timely delivery of our products over the long-term. Additionally, we continue to devote resources to improve the supply chain processes across our business segments and find areas of synergy and cost reduction, all along improving our supply chain management capability to meet global customer demands. We also remain focused on improving on-time delivery and quality, while managing warranty costs as a percentage of sales across our global operations, through the assistance of a focused Continuous Improvement Process ("CIP") initiative. The goal of the CIP initiative, which includes lean manufacturing, six sigma business management strategy and value engineering, is to maximize service fulfillment to customers through on-time delivery, reduced cycle time and quality at the highest internal productivity.

COVID-19 Update

We continue to assess and proactively respond to the impacts of the COVID-19 pandemic on all aspects of our business and geographies, including with respect to our associates, customers and communities, supply chain impacts and labor availability issues, and to take appropriate actions in an effort to mitigate adverse effects of the pandemic.

We are adhering to the state and country mandates and guidelines related to the COVID-19 pandemic wherever we operate. The substantial majority of our production sites have remained fully operational this year, while also protecting the health and safety of our associates.

While we cannot reasonably estimate with certainty the duration and severity of the COVID-19 pandemic or its ultimate impact on the global economy, our business or our financial condition and results, we nonetheless remain committed to providing the critical support, products and services that our customers rely on, and currently believe that we will emerge from these events well positioned for long-term growth.

Health and Safety

The health and safety of our associates, suppliers and customers around the world continues to be a priority as we navigate the COVID-19 pandemic, including the effect and duration of variant strains of the virus in the various geographies in which we operate. As a result of the emergence of these variants, certain geographies where we operate, such as China, have occasionally reinstituted temporary government-mandated shutdowns that were previously implemented to curtail the spread of the virus. While all of our facilities generally remain open and operational, the measures described above, combined with continued employee costs and under-absorption of manufacturing costs as a result of temporary closures and work-from-home policies, have had and are expected to continue having an adverse impact on our financial performance throughout the remainder of the pandemic. Despite the increased challenges of labor availability through the third quarter of 2022, we continue to expect a decline of these adverse impacts as we navigate through the remainder of 2022. Our associates continue to demonstrate strong resilience in adapting to continually evolving health and safety guidelines while still providing products and services to our customers during this challenging time.

Supply Chain Impact

Since the onset of the pandemic, many of our suppliers have also experienced varying lengths of production and shipping delays related to the COVID-19 pandemic and its effects, some of which continue to exist in highly affected countries. For example, as part of its COVID-related policies, China has declared a number of city-wide lockdowns that have, and may continue to, adversely affected the global supply chain. As a result of these measures, our production facilities and suppliers located in China have experienced, and may continue to experience, interruptions in production. These interruptions have contributed to component shortages and other supply chain constraints that may limit our ability to fulfill customer orders within desired lead times, both directly in the Asia Pacific Region and indirectly in other regions.

Additionally, the global supply chain and logistics constraints that have been affecting global markets since the third quarter of 2021 have continued to cause additional headwinds through the first nine months of 2022. These conditions have had an adverse effect on the speed at which we can manufacture and ship our products to customers, and have also led to an increase in logistics, transportation and freight costs, requiring that we diversify our supply chain and, in some instances, source materials from new suppliers. Additionally, these conditions have in some cases impacted our ability to deliver products to customers on time, which has in turn led to an increase in backlog at some of our manufacturing sites. These disruptions in our supply chain and their effects have continued and we expect they will continue as ongoing global supply chain and logistics headwinds continue.

In order to position ourselves to fulfill demand and to counteract the ongoing impacts on our supply chain, we continue to monitor the supply chain closely and to take various proactive steps to protect the continuity of supply, including building inventory to support backlog execution, qualifying alternative sources and redesigning our products.

Operational Impacts

We have engaged in a number of cost savings measures in order to help mitigate certain of the adverse effects of the COVID-19 pandemic on our financial results, including certain realignment activities (further described below under “RESULTS OF OPERATIONS – Nine months ended September 30, 2022 and 2021”), reductions in capital expenditures and continued cuts in other discretionary spending due to our response to the global macroeconomic effects of COVID-19, which partially offsets the continued costs and operational impacts of the safety protocols and procedures that we have implemented and sustained as described above under the heading "Health and Safety" and resulting inflationary pressures. We continue to evaluate additional cost savings measures in order to reduce the impact of the COVID-19 pandemic on our financial results, and we will continue to adapt our operations to respond to the changing conditions as needed.

In connection with the supply chain disruptions described above under the heading “Supply Chain Impact,” we have also experienced, and continue to experience, increased inflation and higher freight and logistics costs. In response to these increased costs, we are engaging in various mitigation strategies, including enhanced price realization efforts.

During the first three quarters of 2022, we continued to experience the same increased difficulty in maintaining staffing and productivity levels due to both a higher quarantine rate and a tighter labor market for new hiring as we experienced in the first three quarters of 2021. As we continue to manage our business through this time of uncertainty and market volatility, we will remain focused on the health and safety of our associates, suppliers, customers, and will continue to provide essential products and services to our customers.

Customer Demand

During the first nine months of 2022, the ongoing effects of the COVID-19 pandemic in global markets have continued to adversely impact our customers, particularly in the oil and gas markets. As a result of the pandemic’s effect (among certain other effects) on oil prices during 2020, many of our large oil and gas customers reduced capital expenditures and budgets in 2020. To date, while spending for maintenance and repair projects and aftermarket services have returned to pre-pandemic levels over the past several quarters, project-based, oil and gas customer spending has yet to return to pre-pandemic levels despite some meaningful improvement in the first nine months of 2022. In this regard, we saw an overall increase in bookings of 19.3% in the first nine months of 2022 as compared to the same period in 2021. Despite the meaningful improvement in customer spending, during the first nine months of 2022 we continued to experience supply chain disruptions as described above under the heading "Supply Chain Impact" as well as customer-driven delays in the witnessing and inspection necessary to take delivery of equipment.

While many of the repair and maintenance projects that were paused by our customers in 2020 as a result of the pandemic were completed in 2021, repair and maintenance delays continued in 2021 and the first nine months of 2022. The timing for completion of such delayed projects will largely depend on the duration of the COVID-19 pandemic and how the virus continues to spread in our customers' various geographies, as the pandemic continues to impact demand, utilization and required maintenance. While we saw some recovery in oil and gas capital expenditure budgets in the first nine months of 2022, capital spending has yet to reach pre-pandemic levels. We continue to expect planned oil and gas capital spending to increase through the rest of 2022 but remain below pre-pandemic levels.

Impact of Russia-Ukraine Conflict on our Business

In response to the ongoing military conflict in Ukraine, several countries, including the United States, have imposed economic sanctions and export controls on certain industry sectors and parties in Russia. As a result of this conflict, including the aforementioned sanctions and overall instability in the region, in February 2022 we stopped accepting new orders in Russia and temporarily suspended fulfillment of existing orders. In March 2022, we made the decision to permanently cease all Company operations in Russia. We have commenced the necessary actions to cease operations of our Russian subsidiary, including taking steps to cancel existing contracts with customers, terminate our approximately 50 Russia-based employees and terminate other related contractual commitments, and currently expect this process to be substantially complete by the end of 2022. As a result of the conflict and the resulting macroeconomic impacts we have also experienced supply shortages and inflationary pressures.

In 2021 our Russian subsidiary had approximately $14 million of sales with an additional $36 million of sales from certain of our other foreign subsidiaries into the Russian market. As of March 31, 2022, the net assets held on our Russian subsidiary's balance sheet were $2.7 million, including $7.1 million of cash, $3.6 million of accounts receivables, net, a $9.3 million net intercompany payable position and other immaterial amounts. In addition, certain of our other foreign subsidiaries had open contracts with Russian customers that were subsequently cancelled for which revenue had been previously recognized over time utilizing the percentage of completion ("POC") method. As a result of the above, in the first quarter of 2022 we recorded a $20.2 million pre-tax charge ($21.0 million after-tax) to reserve the asset positions of our Russian subsidiary (excluding cash) as of March 31, 2022, to record contra-revenue for previously recognized revenue and estimated cancellation fees on open contracts that were previously accounted for under POC and subsequently canceled, to establish a reserve for the estimated cost to exit the operations of our Russian subsidiary and to record a reserve for our estimated financial exposure on contracts that have or are anticipated to be cancelled. We reevaluated our financial exposure as of June 30, 2022 and September 30, 2022, and concluded that the reserve recorded as of March 31, 2022 is sufficient and no material changes to reserves were needed.

The following table presents the above impacts of the Russia pre-tax charge:

	Nine Months Ended September 30, 2022		
(Amounts in thousands)	FPD	FCD	Consolidated Total
Sales	$ (5,429)	$ (2)	$ (5,431)
Cost of sales ("COS")	3,510	1,112	4,622
Gross loss	(8,939)	(1,114)	(10,053)
Selling, general and administrative expense ("SG&A")	9,111	1,082	10,193
Operating loss	$ (18,050)	$ (2,196)	$ (20,246)

We continue to monitor the situation involving Russia and Ukraine and its impact on the rest of our global business. This includes the macroeconomic impact, including with respect to global supply chain issues and inflationary pressures. To date, these impacts have not been material to our business and we do not currently expect that any incremental impact in future quarters, including any financial impacts caused by our cancellation of customer contracts and ceasing of operations in Russia, will be material to the Company.

<u>*2022 Outlook*</u>

As the world continues to make progress against COVID-19 largely through increased vaccinations, we have seen an inflection in our served end-markets as commodity prices and mobility levels increase. With our increased backlog and improved market environment we expect to return to growth in 2022, however the combined effects of the supply chain, logistics and labor availability headwinds have continued into the first nine months of 2022. Further, we have not seen and do not expect to see an increase in cancellations from our backlog. We therefore expect to continue to deliver on our backlog during 2022, though with a slightly longer cycle time than originally expected.

As of September 30, 2022, we have cash and cash equivalents of $351.9 million and $157.3 million of borrowings available under our Senior Credit Facility. We do not currently anticipate, nor are we aware of, any significant market conditions or commitments that would change any of our conclusions of the liquidity currently available to us. Additionally, we expect that the costs savings measures planned and already in place will enable us to maintain adequate liquidity over the short-term (next 12 months) and long-term (beyond the next 12 months) as we manage through the current market environment. We will continue to actively monitor the potential impacts of COVID-19 and related events on the credit markets in order to maintain sufficient liquidity and access to capital.

RESULTS OF OPERATIONS — Three and nine months ended September 30, 2022 and 2021

Throughout this discussion of our results of operations, we discuss the impact of fluctuations in foreign currency exchange rates. We have calculated currency effects on operations by translating current year results on a monthly basis at prior year exchange rates for the same periods.

In the second quarter of 2020, we identified and initiated certain realignment activities to right-size our organizational operations based on the current business environment, with the overall objective to reduce our workforce costs. We anticipate a total investment in Realignment Program activities of approximately $95 million and the vast majority of the charges were incurred in 2020 and 2021 with the remainder to be incurred in 2022. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized and therefore are not included in the above anticipated total investment.

Realignment Activity

The following tables present out realignment activity by segment related to our Realignment Program:

	Three Months Ended September 30, 2022				
(Amounts in thousands)	**FPD**	**FCD**	**Subtotal–Reportable Segments**	**Eliminations and All Other**	**Consolidated Total**
Total Realignment Charges					
COS	$ (417)	$ 22	$ (395)	$ —	$ (395)
SG&A	74	7	81	18	99
Total	$ (343)	$ 29	$ (314)	$ 18	$ (296)

	Three Months Ended September 30, 2021				
(Amounts in thousands)	**FPD**	**FCD**	**Subtotal–Reportable Segments**	**Eliminations and All Other**	**Consolidated Total**
Total Realignment Charges					
COS	$ 2,273	$ 309	$ 2,582	$ —	$ 2,582
SG&A	(252)	$ (1)	(253)	621	368
Total	$ 2,021	$ 308	$ 2,329	$ 621	$ 2,950

(Amounts in thousands)	Nine Months Ended September 30, 2022 FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment Charges					
COS	$ (120)	$ 56	$ (64)	$ (61)	$ (125)
SG&A	150	57	207	(248)	(41)
Total	$ 30	$ 113	$ 143	$ (309)	$ (166)

(Amounts in thousands)	Nine Months Ended September 30, 2021 FPD	FCD	Subtotal–Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment Charges					
COS	$ 13,766	$ 1,457	$ 15,223	$ 590	$ 15,813
SG&A	910	727	1,637	4,816	6,453
Total	$ 14,676	$ 2,184	$ 16,860	$ 5,406	$ 22,266

Consolidated Results

Bookings, Sales and Backlog

	Three Months Ended September 30,	
(Amounts in millions)	2022	2021
Bookings	$ 1,223.3	$ 911.6
Sales	872.9	866.1

	Nine Months Ended September 30,	
(Amounts in millions)	2022	2021
Bookings	$ 3,346.7	$ 2,805.7
Sales	2,576.2	2,621.6

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer with regard to manufacturing, service or support. Bookings recorded and subsequently canceled within the year-to-date period are excluded from year-to-date bookings. Bookings for the three months ended September 30, 2022 increased by $311.7 million, or 34.2%, as compared with the same period in 2021. The increase included negative currency effects of approximately $60 million. The increase was driven by increased customer orders in the oil and gas, chemical, general and power generation industries. The increase in customer bookings was more heavily weighted towards original equipment bookings. The increase included the impact of FPD original equipment orders booked in the third quarter of 2022 in excess of $210 million to supply pumps and related equipment to support the development of an onshore unconventional gas project in the Middle East.

Bookings for the nine months ended September 30, 2022 increased by $541.0 million, or 19.3%, as compared with the same period in 2021. The increase included negative currency effects of approximately $133 million. The increase was driven by increased customer bookings in the and oil and gas, chemical, general, water management and power generation industries. The increase in customer bookings was more heavily weighted towards original equipment bookings. The increase included the impact of FPD original equipment orders booked in 2022 in excess of $230 million to supply pumps and related equipment to support the development of an onshore unconventional gas project in the Middle East.

Sales for the three months ended September 30, 2022 increased by $6.8 million, or 0.8%, as compared with the same period in 2021. The increase included negative currency effects of approximately $55 million. The increased sales were driven by aftermarket, with increased sales into North America, Africa and Middle East, partially offset by decreased sales into Europe, Latin America and Asia Pacific. In the third quarter of 2022 we experienced operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers. We estimate that this disruption negatively impacted sales volumes during the period by approximately $30 million and we anticipate to largely recover the sales in future periods. Net sales to international customers, including export sales from the U.S., were approximately 62% and 67% of total sales for the three months ended September 30, 2022 and 2021, respectively.

Sales for the nine months ended September 30, 2022 decreased by $45.4 million, or 1.7%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $116 million. The decreased sales were driven by original equipment, with decreased sales into Europe, Asia Pacific and Latin America, partially offset by increased sales into North America, Africa and the Middle East. Net sales to international customers, including export sales from the U.S., were approximately 62% and 67% of total sales for the three months ended September 30, 2022 and 2021, respectively.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of $2,601.9 million at September 30, 2022 increased by $598.3 million, or 29.9%, as compared with December 31, 2021 and include the negative impact of $25.2 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $139 million. Approximately 35% and 38% of the backlog at September 30, 2022 and December 31, 2021, respectively, was related to aftermarket orders. Backlog includes our unsatisfied (or partially unsatisfied) performance obligations related to contracts having an original expected duration in excess of one year of approximately $597 million, as discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Gross Profit and Gross Profit Margin

	Three Months Ended September 30,	
(Amounts in millions, except percentages)	**2022**	**2021**
Gross profit	$ 239.6	$ 253.5
Gross profit margin	27.4 %	29.3 %

	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	**2022**	**2021**
Gross profit	$ 699.1	$ 782.6
Gross profit margin	27.1 %	29.9 %

Gross profit for the three months ended September 30, 2022 decreased by $13.9 million, or 5.5%, as compared with the same period in 2021. Gross profit margin for the three months ended September 30, 2022 of 27.4% decreased from 29.3% for the same period in 2021. The decrease in gross profit margin was primarily due to the under absorption of $5.1 million of fixed manufacturing costs primarily due to operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers, increased freight costs largely due to global supply chain and logistics constraints and the establishment of $1.7 million of inventory reserves related to certain contracts that are estimated to be below market, partially offset by a mix shift to higher aftermarket sales, decreased costs related to our realignment actions and lower broad-based annual incentive compensation as compared to the same period in 2021. Aftermarket sales represented approximately 53% of total sales for the three months ended September 30, 2022, as compared with approximately 51% of total sales for the same period in 2021.

Gross profit for the nine months ended September 30, 2022 decreased by $83.5 million, or 10.7%, as compared with the same period in 2021. Gross profit margin for the nine months ended September 30, 2022 of 27.1% decreased from 29.9% for the same period in 2021. The decrease in gross profit margin was primarily due to lower conversion of customer backlog to revenue and the under absorption of $5.1 million of fixed manufacturing costs primarily due to operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers, increased freight costs largely due to global supply chain and logistics constraints and a $4.6 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, partially offset by a mix shift to higher aftermarket sales, decreased costs related to our realignment actions and lower broad-based annual incentive compensation as compared to the same period in 2021. Aftermarket sales represented approximately 53% of total sales for the nine months ended September 30, 2022, as compared with approximately 52% of total sales for the same period in 2021.

Selling, General and Administrative Expense

	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
SG&A	$ 221.1	$ 200.9
SG&A as a percentage of sales	25.3 %	23.2 %

	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
SG&A	$ 622.0	$ 610.0
SG&A as a percentage of sales	24.1 %	23.3 %

SG&A for the three months ended September 30, 2022 increased by $20.2 million, or 10.1%, as compared with the same period in 2021. Currency effects yielded a decrease of approximately $10 million. SG&A as a percentage of sales for the three months ended September 30, 2022 increased 210 basis points primarily due to increased asbestos-related costs of $3.8 million driven by a $7.8 million adjustment for Incurred But Not Reported ("IBNR") asbestos liability accruals based on an annual actuarial study, the acquisition and expense of $4.8 million of in-process research and development, increased bad debt expense and incremental operating lease expense of $5.5 million related to the identification and correction of an accounting error, partially offset by lower broad-based annual incentive compensation as compared with the same period in 2021.

SG&A for the nine months ended September 30, 2022 increased by $12.0 million, or 2.0%, as compared with the same period in 2021. Currency effects yielded a decrease of approximately $23 million. SG&A as a percentage of sales for the nine months ended September 30, 2022 increased 80 basis points primarily due to a $10.2 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, increased asbestos-related costs of $2.9 million driven by a $7.8 million adjustment in the third quarter of 2022 for IBNR asbestos liability accruals based on an annual actuarial study, incremental operating lease expense of $5.5 million related to the identification and correction of an accounting error, the acquisition and expense of $4.8 million of in-process research and development in the third quarter of 2022 and increased bad debt expense, partially offset by lower costs related to our realignment actions and lower broad-based annual incentive compensation as compared with the same period in 2021.

Net Earnings from Affiliates

	Three Months Ended September 30,	
(Amounts in millions)	2022	2021
Net earnings from affiliates	$ 5.8	$ 4.7

	Nine Months Ended September 30,	
(Amounts in millions)	2022	2021
Net earnings from affiliates	$ 14.8	$ 11.2

Net earnings from affiliates for the three months ended September 30, 2022 increased by $1.1 million, or 23.4%, as compared with the same period in 2021. The increase in net earnings was primarily a result of losses in the third quarter of 2021 associated with our FPD joint venture in China that did not recur.

Net earnings from affiliates for the nine months ended September 30, 2022 increased by $3.6 million, or 32.1%, as compared with the same period in 2021. The increase was primarily a result of increased earnings of our FPD joint venture in South Korea.

Operating Income and Operating Margin

(Amounts in millions, except percentages)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Operating income	$ 24.2	$ 57.4
Operating income as a percentage of sales	2.8 %	6.6 %

(Amounts in millions, except percentages)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Operating income	$ 91.9	$ 185.6
Operating income as a percentage of sales	3.6 %	7.1 %

Operating income for the three months ended September 30, 2022 decreased by $33.2 million, or 57.8%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $5 million. The decrease was primarily a result of the $13.9 million decrease in gross profit and the $20.2 million increase in SG&A.

Operating income for the nine months ended September 30, 2022 decreased by $93.7 million, or 50.5%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $7 million. The decrease was primarily a result of the $83.5 million decrease in gross profit and the $12.0 million increase in SG&A.

Interest Expense and Interest Income

(Amounts in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Interest expense	$ (11.6)	$ (14.7)
Interest income	1.1	0.8

(Amounts in millions)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Interest expense	$ (33.3)	$ (45.8)
Interest income	2.9	1.9

Interest expense for the three months ended September 30, 2022 decreased $3.1 million, as compared with the same period in 2021, primarily due to lower effective interest rates on our outstanding debt as compared with the same period in 2021.

Interest expense for the nine months ended September 30, 2022 decreased $12.5 million, as compared with the same period in 2021, primarily due to lower effective interest rates on our outstanding debt as compared with the same period in 2021.

Loss on Extinguishment of Debt

(Amounts in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Loss on extinguishment of debt	$ —	$ (0.6)

(Amounts in millions)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Loss on extinguishment of debt	$ —	$ (8.2)

Loss on extinguishment of debt for the three months ended September 30, 2021 of $0.6 million resulted from the write-off of deferred financing fees due to the amendment and restatement of the previous Senior Credit facility in the third quarter of 2021.

Loss on extinguishment of debt for the nine months ended September 30, 2021 of $8.2 million resulted from the loss on early extinguishment of our 2022 Euro Senior Notes in the first quarter of 2021 and the write-off of deferred financing fees due to the amendment and restatement of the previous Senior Credit facility in the third quarter of 2021.

Other Income (Expense), Net

	Three Months Ended September 30,	
(Amounts in millions)	2022	2021
Other income (expense), net	$ 28.7	$ (1.5)

	Nine Months Ended September 30,	
(Amounts in millions)	2022	2021
Other income (expense), net	$ 28.2	$ (20.7)

Other income, net for the three months ended September 30, 2022 increased $30.2 million as compared with the same period in 2021, due primarily to a $30.2 million increase in gains from transactions in currencies other than our sites' functional currencies and a $1.3 million increase in gains arising from transactions on foreign exchange forward contracts. The net change was primarily due to the foreign currency exchange rate movements in the Euro, Hungarian forint, British pound and Emirati dirham during the three months ended September 30, 2022, as compared with the same period in 2021. Included in the other income, net increase for the period is a $23.6 million foreign currency remeasurement gain associated with a Canadian dollar denominated intercompany loan held by a Euro functional currency entity.

Other income, net for the nine months ended September 30, 2022 increased $48.9 million as compared with the same period in 2021, due primarily to a $49.9 million increase in gains from transactions in currencies other than our sites' functional currencies, partially offset by a $0.2 million decrease in gains arising from transactions on foreign exchange forward contracts. The net change was primarily due to the foreign currency exchange rate movements in the Euro, Hungarian forint, British pound and Canadian dollar during the nine months ended September 30, 2022, as compared with the same period in 2021. Included in the other income, net increase for the period is a $23.6 million foreign currency remeasurement gain associated with a Canadian dollar denominated intercompany loan held by a Euro functional currency entity.

Income Taxes and Tax Rate

	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Provision for (benefit from) income taxes	$ 1.8	$ (10.4)
Effective tax rate	4.2 %	(25.2)%

	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Provision for (benefit from) income taxes	$ 16.6	$ (3.9)
Effective tax rate	18.5 %	(3.5)%

The effective tax rate of 4.2% for the three months ended September 30, 2022 increased from (25.2)% for the same period in 2021. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2022 primarily due to the mitigation of previously recorded BEAT liability and net impact of foreign operations. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

The effective tax rate of 18.5% for the nine months ended September 30, 2022 increased from (3.5)% for the same period in 2021. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2022 primarily due to the mitigation of previously recorded BEAT liability, the current and anticipated tax impact of the Russia-Ukraine conflict on our business and the net impact of foreign operations. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

Other Comprehensive Income (Loss)

	Three Months Ended September 30,	
(Amounts in millions)	2022	2021
Other comprehensive income (loss)	$ (83.1)	$ (12.0)

	Nine Months Ended September 30,	
(Amounts in millions)	2022	2021
Other comprehensive income (loss)	$ (153.8)	$ (2.3)

Other comprehensive loss for the three months ended September 30, 2022 increased $71.1 million as compared to the same period in 2021. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound, Indian rupee and Chinese yuan versus the U.S. dollar during the three months ended September 30, 2022, as compared with the same period in 2021.

Other comprehensive loss for the nine months ended September 30, 2022 increased $151.5 million as compared to the same period in 2021. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound, Indian rupee and Chinese yuan versus the U.S. dollar during the nine months ended September 30, 2022, as compared with the same period in 2021.

Business Segments

We conduct our operations through two business segments based on the type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. The key operating results for our two business segments, FPD and FCD, are discussed below.

Flowserve Pump Division Segment Results

Our largest business segment is FPD, through which we design, manufacture, distribute and service highly custom engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, and auxiliary systems (collectively referred to as "original equipment") and related services. FPD primarily operates in the oil and gas, power generation, chemical and general industries. FPD operates in 49 countries with 35 manufacturing facilities worldwide, 10 of which are located in Europe, 11 in North America, eight in Asia and six in Latin America, and it operates 131 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Bookings	$ 925.8	$ 660.9
Sales	592.6	601.8
Gross profit	170.0	182.9
Gross profit margin	28.7 %	30.4 %
SG&A	136.9	128.5
Segment operating income	38.9	59.1
Segment operating income as a percentage of sales	6.6 %	9.8 %

	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Bookings	$ 2,433.6	$ 1,982.5
Sales	1,783.1	1,821.9
Gross profit	510.9	562.1
Gross profit margin	28.7 %	30.9 %
SG&A	408.4	394.7
Gain on sale of business	—	1.8
Segment operating income	117.3	180.7
Segment operating income as a percentage of sales	6.6 %	9.9 %

Bookings for the three months ended September 30, 2022 increased by $264.9 million, or 40.1%, as compared with the same period in 2021. The increase included negative currency effects of approximately $44 million. The increase in customer bookings was driven by increased customer orders in the oil and gas, chemical, water management and general industries, partially offset by decreased customer orders in the power generation industry. Customer bookings increased $51.0 million into North America, $188.4 million into the Middle East, $16.9 million into Europe and $23.8 million into Latin America and were partially offset by decreased customer orders of $10.8 million into Asia Pacific and $7.7 million into Africa. The increase was more heavily weighted towards original equipment bookings. The increase included the impact of original equipment orders booked in the third quarter of 2022 in excess of $210 million to supply pumps and related equipment to support the development of an onshore unconventional gas project in the Middle East.

Bookings for the nine months ended September 30, 2022 increased by $451.1 million, or 22.8%, as compared with the same period in 2021. The increase included negative currency effects of approximately $97 million. The increase in customer bookings was driven by increased customer orders in the oil and gas, power generation, chemical, general and water management industries. Customer bookings increased $137.1 million into North America, $214.8 million into the Middle East, $24.9 million into Asia Pacific, $85.1 million into Europe, $.1 million into Africa and $9.1 million into Latin America. The increase was more heavily weighted towards original equipment. The increase included the impact of original equipment orders booked in 2022 in excess of $230 million to supply pumps and related equipment to support the development of an onshore unconventional gas project in the Middle East.

Sales for the three months ended September 30, 2022 decreased by $9.2 million, or 1.5% as compared with the same period in 2021 and included negative currency effects of approximately $38 million. The decrease was driven by customer original equipment sales. Decreased customer sales of $28.3 million into Asia Pacific, $7.6 million into Europe and $14.7 million into Latin America were partially offset by increased sales of $18.4 million into North America, $10.1 million into the Middle East and $8.8 million into Africa. In the third quarter of 2022 we experienced operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers. We estimate that this disruption negatively impacted sales volumes during the period by approximately $30 million and we anticipate to largely recover the sales in future periods.

Sales for the nine months ended September 30, 2022 decreased by $38.8 million, or 2.1% as compared with the same period in 2021 and included negative currency effects of approximately $83 million and $5.4 million of negative impact as a result of the reserve for our Russia exposure. The decrease was driven by customer original equipment sales. Decreased customer sales of $73.6 million into Asia Pacific, $37.5 million into Europe and $13.3 million into Latin America were partially offset by increased sales of $54.2 million into North America, $13.7 million into Africa and $9.2 million into the Middle East.

Gross profit for the three months ended September 30, 2022 decreased by $12.9 million, or 7.1%, as compared with the same period in 2021. Gross profit margin for the three months ended September 30, 2022 of 28.7% decreased from 30.4% for the same period in 2021. The decrease in gross profit margin was primarily attributable to the under absorption of $5.1 million of fixed manufacturing costs primarily due to operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers and increased freight costs largely due to global supply chain and logistics constraints, partially offset by a mix shift to higher aftermarket sales, decreased costs related to our realignment actions and lower broad-based annual incentive compensation as compared to the same period in 2021.

Gross profit for the nine months ended September 30, 2022 decreased by $51.2 million, or 9.1%, as compared with the same period in 2021. Gross profit margin for the nine months ended September 30, 2022 of 28.7% decreased from 30.9% for the same period in 2021. The decrease in gross profit margin was primarily attributable to lower conversion of customer backlog to revenue and the under absorption of $5.1 million of fixed manufacturing costs primarily due to operational interruptions related to the implementation of a new enterprise resource planning system at certain of our North America quick response centers, increased freight costs largely due to global supply chain and logistics constraints and a $3.5 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, partially offset by a mix shift to higher margin aftermarket, lower broad-based annual incentive compensation and decreased costs related to our realignment actions as compared to the same period in 2021.

SG&A for the three months ended September 30, 2022 increased by $8.4 million, or 6.5%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $6 million. The increase in SG&A was primarily due to the acquisition and expense of $4.8 million of in-process research and development and higher bad debt expense, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

SG&A for the nine months ended September 30, 2022 increased by $13.7 million, or 3.5%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $15 million. The increase in SG&A was primarily due a $9.1 million charge taken in the first quarter of 2022 related to our financial exposure in Russia and the acquisition and expense of $4.8 million of in-process research and development in the third quarter of 2022 and higher bad debt expense, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

Operating income for the three months ended September 30, 2022 decreased by $20.2 million, or 34.2%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $5 million. The decrease was primarily due to the $12.9 million decrease in gross profit and the $8.4 million increase in SG&A.

Operating income for the nine months ended September 30, 2022 decreased by $63.4 million, or 35.1%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $8 million. The decrease was primarily due to the $51.2 million decrease in gross profit and the $13.7 million increase in SG&A.

Backlog of $1,911.1 million at September 30, 2022 increased by $542.2 million, or 39.6%, as compared with December 31, 2021 and include the negative impact of $19.0 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $100 million.

Flow Control Division Segment Results

FCD designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products and related equipment. FCD leverages its experience and application know-how by offering a complete menu of engineered services to complement its expansive product portfolio. FCD has a total of 44 manufacturing facilities and QRCs in 22 countries around the world, with five of its 19 manufacturing operations located in the U.S., eight located in Europe, five located in Asia Pacific and one located in Latin America. Based on independent industry sources, we believe that FCD is the second largest industrial valve supplier on a global basis.

	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Bookings	$ 300.0	$ 253.6
Sales	282.6	266.1
Gross profit	78.2	77.0
Gross profit margin	27.7 %	28.9 %
SG&A	48.5	49.3
Segment operating income	29.7	27.7
Segment operating income as a percentage of sales	10.5 %	10.4 %

	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2022	2021
Bookings	$ 923.2	$ 834.0
Sales	798.8	803.1
Gross profit	218.0	236.4
Gross profit margin	27.3 %	29.4 %
SG&A	142.7	147.1
Segment operating income	75.3	89.7
Segment operating income as a percentage of sales	9.4 %	11.2 %

Bookings for the three months ended September 30, 2022 increased by $46.4 million, or 18.3%, as compared with the same period in 2021. Bookings included negative currency effects of approximately $16 million. The increase in customer bookings was primarily driven by increased customer orders in the chemical, oil and gas and power generation industries, partially offset by decreased customer orders in the general and water management industries. Increased customer bookings were driven by increased orders of $24.3 million into North America, $8.7 million into Asia Pacific, $0.2 million into Africa, $4.2 million into Europe, $7.3 million into the Middle East and $2.0 million into Latin America. The increase was driven by both customer original equipment and aftermarket bookings.

Bookings for the nine months ended September 30, 2022 increased by $89.2 million, or 10.7%, as compared with the same period in 2021. Bookings included negative currency effects of approximately $36 million. The increase in customer bookings was primarily driven by increased customer orders in the chemical, oil and gas, water management and general industries, partially offset by decreased customer orders in the power generation industry. Increased customer orders of $42.8 million into North America, $16.3 million into Europe, $4.9 million into Africa, $14.8 million into the Middle East and $3.2 million into

Latin America and $8.4 million into Asia Pacific. The increase was driven by both customer original equipment and aftermarket bookings.

Sales for the three months ended September 30, 2022 increased $16.5 million, or 6.2%, as compared with the same period in 2021. The increase included negative currency effects of approximately $17 million. Increased sales were driven by both original equipment and aftermarket sales. The increase was primarily driven by increased customer sales of $21.9 million into North America and $1.3 million into Africa, partially offset by decreased $1.4 million into the Middle East, $0.5 million into Europe, $0.3 million into Latin America and $3.1 million into Asia Pacific.

Sales for the nine months ended September 30, 2022 decreased $4.3 million, or 0.5%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $33 million. Decreased sales were driven by original equipment sales. The decrease was primarily driven by decreased customer sales of $30.5 million into Asia Pacific, $3.6 million into Africa, $7.4 million into the Middle East, $17.1 million into Europe and $5.5 million into Latin America, partially offset by increased customer sales of $61.3 million into North America.

Gross profit for the three months ended September 30, 2022 increased by $1.2 million, or 1.6%, as compared with the same period in 2021. Gross profit margin for the three months ended September 30, 2022 of 27.7% decreased from the 28.9% for the same period in 2021. The decrease in gross profit margin was primarily attributable to increased freight costs largely due to global supply chain and logistics constraints and the establishment of $1.7 million of inventory reserves related to certain contracts that are estimated to be below market, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

Gross profit for the nine months ended September 30, 2022 decreased by $18.4 million, or 7.8%, as compared with the same period in 2021. Gross profit margin for the nine months ended September 30, 2022 of 27.3% decreased from the 29.4% for the same period in 2021. The decrease in gross profit margin was primarily attributable to increased freight costs largely due to global supply chain and logistics constraints, the establishment of $1.7 million of inventory reserves related to certain contracts that are estimated to be below market and a $1.1 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

SG&A for the three months ended September 30, 2022 decreased by $0.8 million, or 1.6%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $3 million. The decrease in SG&A was primarily due to lower broad-based annual incentive compensation as compared to the same period in 2021.

SG&A for the nine months ended September 30, 2022 decreased by $4.4 million, or 3.0%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $5 million. The decrease in SG&A was primarily due to lower broad-based annual incentive compensation, partially offset by a $1.1 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, higher bad debt expense and a discrete asset write-down in the second quarter of 2022 as compared to the same period in 2021.

Operating income for the three months ended September 30, 2022 increased by $2.0 million, or 7.2%, as compared with the same period in 2021. The increase included negative currency effects of approximately $1 million. The increase was primarily due to the $1.2 million increase in gross profit and the $0.8 million decrease in SG&A.

Operating income for the nine months ended September 30, 2022 decreased by $14.4 million, or 16.1%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $2 million. The decrease was primarily due to the $18.4 million decrease in gross profit, partially offset by the $4.4 million decrease in SG&A.

Backlog of $701.8 million at September 30, 2022 increased by $62.0 million, or 9.7%, as compared with December 31, 2021 and include the negative impact of $9.8 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $38 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow and Liquidity Analysis

	Nine Months Ended September 30,	
(Amounts in millions)	2022	2021
Net cash flows provided (used) by operating activities	$ (109.5)	$ 151.1
Net cash flows provided (used) by investing activities	(45.6)	(38.7)
Net cash flows provided (used) by financing activities	(111.8)	272.3

Existing cash, cash generated by operations and borrowings available under the Senior Credit Facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance at September 30, 2022 was $351.9 million as compared with $658.5 million at December 31, 2021.

Our cash balance decreased by $306.6 million to $351.9 million at September 30, 2022, as compared with December 31, 2021. The cash activity during the first nine months of 2022 included cash used by operating activities, $78.4 million in dividend payments, $45.8 million in capital expenditures and $24.2 million of payments on our Term Loan.

For the nine months ended September 30, 2022, our cash used by operating activities was $109.5 million, as compared to cash provided of $151.1 million for the same period in 2021. Cash flow provided from working capital decreased for the nine months ended September 30, 2022, due primarily to increased cash flows used by or decreased cash flows provided by accounts receivable, inventory, contract assets, prepaid expenses and other, accrued liabilities and income tax payable, partially offset by increased cash flows provided by or decreased cash flows used by contract liabilities, accounts payable and retirement obligations and other liabilities as compared to the same period in 2021.

Increases in accounts receivable used $78.4 million of cash flow for the nine months ended September 30, 2022, as compared to provided $24.4 million for the same period in 2021. As of September 30, 2022, our days' sales outstanding ("DSO") was 79 days as compared with 74 days as of September 30, 2021.

Increases in contract assets used $21.9 million of cash flow for the nine months ended September 30, 2022, as compared with cash flows provided of $35.4 million for the same period in 2021.

Increases in inventory used $151.9 million and $47.5 million of cash flow for the nine months ended September 30, 2022 and September 30, 2021, respectively. Inventory turns were 3.1 times at September 30, 2022, as compared to 3.5 as of September 30, 2021.

Increases in accounts payable provided $29.3 million of cash flow for the nine months ended September 30, 2022, as compared with $58.6 million cash used for the same period in 2021. Decreases in accrued liabilities and income taxes payable used $32.7 million of cash flow for the nine months ended September 30, 2022, as compared with $9.1 million of cash flow provided for the same period in 2021. Cash used from accrued liabilities and income tax payable included a one-time tax payment of approximately $30 million associated with accrued withholding taxes related to foreign undistributed earnings for the nine months ended September 30, 2022.

Increases in contract liabilities provided $27.2 million of cash flow for the nine months ended September 30, 2022, as compared to cash flows provided of $9.4 million for the same period in 2021.

Cash flows used by investing activities during the nine months ended September 30, 2022 were $45.6 million, as compared to $38.7 million for the same period in 2021. Capital expenditures during the nine months ended September 30, 2022 were $45.8 million, an increase of $11.8 million as compared with the same period in 2021. Our capital expenditures are generally focused on strategic initiatives to pursue information technology infrastructure, ongoing scheduled replacements and upgrades and cost reduction opportunities. In 2022, we currently estimate capital expenditures to be between $60 million and $70 million before consideration of any acquisition activity. In addition, proceeds received during the nine months ended September 30, 2022 from disposal of assets provided $0.4 million. Proceeds received during the nine months ended September 30, 2021 from disposal of assets provided $2.5 million.

Cash flows used by financing activities during the nine months ended September 30, 2022 were $111.8 million, as compared to $272.3 million of cash flows provided for the same period in 2021. Cash outflows in the nine months ended September 30, 2022 resulted primarily from the $24.2 million of payments on our Term Loan and $78.4 million of dividend payments. Cash inflows during the nine months ended September 30, 2021 resulted primarily from $498.3 million of proceeds related to the 2032 Senior Notes issuance, $300.0 million proceeds related to the unsecured term loan facility draw, partially offset by a $407.5 million payment on long-term debt resulting from the redemption of our 2022 Euro Senior Notes, $78.6 million of dividend payments and the repurchase of $17.5 million of common shares.

Our Amended and Restated Credit Agreement matures in September 13, 2026. Approximately $10 million of our outstanding Term Loan Facility is due to mature in the remainder of 2022 and approximately $40 million in 2023. As of September 30, 2022, we had an available capacity of $157.3 million on our Senior Credit Facility, which provides for a $800.0 million unsecured revolving credit facility with a maturity date of September 13, 2026. Our borrowing capacity is subject to financial covenant limitations based on the terms of our Senior Credit Facility and is also reduced by outstanding letters of credit. Our Senior Credit Facility is committed and held by a diversified group of financial institutions. Refer to Note 6 to our condensed consolidated financial statements included in this Quarterly Report for additional information concerning our Senior Credit Facility.

During the nine months ended September 30, 2022 we have made no cash contributions to our U.S. pension plan. At December 31, 2021, our U.S. pension plan was fully funded as defined by applicable law. After consideration of our funded status, we currently do not anticipate making any contributions to our U.S. pension plan in 2022. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

Considering our current debt structure and cash needs, we currently believe cash flows generated from operating activities combined with availability under our Senior Credit Facility and our existing cash balance will be sufficient to meet our cash needs for our short-term (next 12 months) and long-term (beyond the next 12 months) business needs. Cash flows from operations could be adversely affected by economic, political and other risks associated with sales of our products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors. See "Financing" and "Cautionary Note Regarding Forward-Looking Statements" below.

As of September 30, 2022, we have $96.1 million of remaining capacity for Board of Directors approved share repurchases. While we currently intend to continue to return cash through dividends and/or share repurchases for the foreseeable future, any future returns of cash through dividends and/or share repurchases will be reviewed individually, declared by our Board of Directors at its discretion and implemented by management.

Financing

Credit Facilities

See Note 6 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our Senior Credit Facility and related covenants. We were in compliance with all applicable covenants under our Senior Credit Facility as of September 30, 2022.

As of September 30, 2022, we have cash and cash equivalents of $351.9 million and $157.3 million of borrowings available under our Senior Credit Facility. On October 14, 2022, the Company borrowed $45.0 million on the Revolving Credit Facility for general corporate purposes. We do not currently anticipate, nor are we aware of, any significant market conditions or commitments that would change any of our conclusions of the liquidity currently available to us. Additionally, we expect that the costs savings measures planned and already in place will enable us to maintain adequate liquidity over the short-term (next 12 months) and long-term (beyond the next 12 months) as we manage through the current market environment. We will continue to actively monitor the potential impacts of COVID-19 and related events on the credit markets in order to maintain sufficient liquidity and access to capital.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2021 Annual Report. The critical policies, for which no significant changes have occurred in the nine months ended September 30, 2022, include:

- Revenue Recognition;
- Deferred Taxes, Tax Valuation Allowances and Tax Reserves;
- Reserves for Contingent Loss;
- Pension and Postretirement Benefits; and
- Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets.

The process of preparing condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates. The significant estimates are reviewed quarterly with the Audit Committee of our Board of Directors.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our condensed consolidated financial statements provide a meaningful and fair perspective of our consolidated financial condition and results of operations. This is not to suggest that other general risk factors, such as changes in worldwide demand, changes in material costs, performance of acquired businesses and others, could not adversely impact our consolidated financial condition, results of operations and cash flows in future periods. See "Cautionary Note Regarding Forward-Looking Statements" below.

ACCOUNTING DEVELOPMENTS

We have presented the information about pronouncements not yet implemented in Note 1 to our condensed consolidated financial statements included in this Quarterly Report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, statements concerning our future financial performance, future debt and financing levels, investment objectives, implications of litigation and regulatory investigations and other management plans for future operations and performance.

The forward-looking statements included in this Quarterly Report are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements and are currently, or in the future could be, amplified by the COVID-19 pandemic. Specific factors that might cause such a difference include, without limitation, the following:

- uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial results and financial position, our customers and suppliers, and on the global economy, including its impact on our sales;
- a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins;
- changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog;
- our dependence on our customers' ability to make required capital investment and maintenance expenditures. The liquidity and financial position of our customers could impact capital investment decisions and their ability to pay in full and/or on a timely basis;
- if we are not able to successfully execute and realize the expected financial benefits from our strategic transformation, realignment and other cost-saving initiatives, our business could be adversely affected;
- risks associated with cost overruns on fixed fee projects and in accepting customer orders for large complex custom engineered products;
- the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries;
- the adverse impact of volatile raw materials prices on our products and operating margins;
- economic, political and other risks associated with our international operations, including military actions, trade embargoes or changes to tariffs or trade agreements that could affect customer markets, particularly North African, Russian and Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/reexport control, foreign corrupt practice laws, economic sanctions and import laws and regulations;
- increased aging and slower collection of receivables, particularly in Latin America and other emerging markets;
- our exposure to fluctuations in foreign currency exchange rates, particularly the Euro and British pound and in

  hyperinflationary countries such as Venezuela and Argentina;
- our furnishing of products and services to nuclear power plant facilities and other critical applications;
- potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims;
- expectations regarding acquisitions and the integration of acquired businesses;
- our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits;
- the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets;
- our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations;
- the highly competitive nature of the markets in which we operate;
- environmental compliance costs and liabilities;
- potential work stoppages and other labor matters;
- access to public and private sources of debt financing;
- our inability to protect our intellectual property in the U.S., as well as in foreign countries;
- obligations under our defined benefit pension plans;

- our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud;
- the recording of increased deferred tax asset valuation allowances in the future or the impact of tax law changes on such deferred tax assets could affect our operating results;
- risks and potential liabilities associated with cyber security threats; and
- ineffective internal controls could impact the accuracy and timely reporting of our business and financial results.

These and other risks and uncertainties are more fully discussed in the risk factors identified in "Item 1A. Risk Factors" in Part I of our 2021 Annual Report and Part II of this Quarterly Report, and may be identified in our Quarterly Reports on Form 10-Q and our other filings with the SEC and/or press releases from time to time. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have market risk exposure arising from changes in foreign currency exchange rate movements in foreign exchange forward contracts. We are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but we currently expect our counterparties will continue to meet their obligations given their current creditworthiness.

LIBOR

On March 5, 2021, the UK Financial Conduct Authority (“FCA”), which regulates the London Interbank Offered Rate (“LIBOR”) issued an announcement on the future cessation or loss of representativeness of LIBOR benchmark settings currently published by ICE Benchmark Administration. That announcement confirmed that LIBOR will either cease to be provided by any administrator or will no longer be representative after December 31, 2021 for all non-USD LIBOR reference rates, and for 1-Week and 2-Month USD LIBOR and after June 30, 2023 for other USD LIBOR reference rates. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rate Committee, has proposed the replacement of U.S. dollar LIBOR rates with a new index calculated by short-term repurchase agreements backed by U.S. Treasury securities called the Secured Overnight Financing Rate (“SOFR”). Whether or not SOFR is generally accepted as the LIBOR replacement remains in question and the future of LIBOR at this time is uncertain. The Company’s Amended and Restated Credit Agreement includes a provision for the determination of a successor LIBOR rate when appropriate by reference to the then-prevailing market convention for determining an interest rate for syndicated loans in the United States, subject to a right of the lenders thereunder to reject the application of the determined rate by written notice. While we will work with our administrative agent to incorporate a successor reference rate, there can be no assurances as to what alternative reference rates may be and whether such rates will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR.

Foreign Currency Exchange Rate Risk

A substantial portion of our operations are conducted by our subsidiaries outside of the U.S. in currencies other than the U.S. dollar. Almost all of our non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions, including firm commitments and anticipated transactions, denominated in a currency other than our or a non-U.S. subsidiary’s functional currency. As a means of managing the volatility of foreign currency exposure with the Euro/U.S. dollar exchange rate, we entered into three swap agreements associated with our Euro investment in certain of our international subsidiaries. The swap agreements are designated as a net investment hedges and as of September 30, 2022, the notional value of the swaps agreements was €423.2 million. Routinely, we review our investments in foreign subsidiaries from a long-term perspective and use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. For further discussion related to these swap agreements refer to Note 5 to our condensed consolidated financial statements included in this Quarterly Report. We recognized net gains (losses) associated with foreign currency translation of $(89.3) million and $(15.6) million for the three months ended September 30, 2022 and 2021, respectively, and $(170.2) million and $(12.5) million for the nine months ended September 30, 2022 and 2021, respectively, which are included in other comprehensive income (loss).

We employ a foreign currency risk management strategy to minimize potential changes in cash flows from unfavorable foreign currency exchange rate movements. Where available, the use of foreign exchange forward contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the foreign exchange forward contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. As of September 30, 2022, we had a U.S. dollar equivalent of $399.6 million in aggregate notional amount outstanding in foreign exchange forward contracts with third parties, as compared with $425.2 million at December 31, 2021. Transactional currency gains and losses arising from transactions outside of our sites’ functional currencies and changes in fair value of non-designated foreign exchange forward contracts are included in our consolidated results of operations. We recognized foreign currency net gains (losses) of $30.5 million and $(1.1) million for the three months ended September 30, 2022 and 2021, respectively, and $34.9 million and $(14.8) million for the nine months ended September 30, 2022 and 2021, respectively, are included in other income (expense), net in the accompanying condensed consolidated statements of income.

Based on a sensitivity analysis at September 30, 2022, a 10% change in the foreign currency exchange rates for the nine months ended September 30, 2022 would have impacted our net earnings by approximately $5 million. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency exchange forward contracts discussed above.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are controls and other procedures that are designed to ensure that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2022. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2022.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to the legal proceedings that are described in Note 10 to our condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report, and such disclosure is incorporated by reference into this "Item 1. Legal Proceedings." In addition to the foregoing, we and our subsidiaries are named defendants in certain other ordinary routine lawsuits incidental to our business and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect the amount of any liability that could arise with respect to these matters, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There are numerous factors that affect our business, financial condition, results of operations, cash flows, reputation and/or prospects, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our 2021 Annual Report, which contain descriptions of significant factors that might cause the actual results of operations in future periods to differ materially from those currently projected in the forward-looking statements contained therein.

There have been no material changes in risk factors discussed in our 2021 Annual Report and subsequent SEC filings. The risks described in this Quarterly Report filed for the period ended September 30, 2022, our 2021 Annual Report and in our other SEC filings or press releases from time to time are not the only risks we face. Additional risks and uncertainties are currently deemed immaterial based on management's assessment of currently available information, which remains subject to change; however, new risks that are currently unknown to us may surface in the future that materially adversely affect our business, financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Note 12 to our condensed consolidated financial statements included in this Quarterly Report includes a discussion of our share repurchase program and payment of quarterly dividends on our common stock.

During the quarter ended September 30, 2022, we had no repurchases of our common stock shares. As of September 30, 2022, we have $96.1 million of remaining capacity under our current share repurchase program. The following table sets forth the activity for each of the three months during the quarter ended September 30, 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (in millions)
July 1 - 31	382 (2)	$ 29.33	—	$ 96.1
August 1 - 31	1,069 (3)	33.46	—	96.1
September 1 - 30	193 (2)	25.05	—	96.1
Total	1,644	$ 31.51	—	

(1) On November 13, 2014, our Board of Directors approved a $500.0 million share repurchase authorization. Our share repurchase program does not have an expiration date, and we reserve the right to limit or terminate the repurchase program at any time without notice.

(2) Represents shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares.

(3) Includes 213 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of $32.88 and 856 shares purchased at a price of $33.60 per share by a rabbi trust that we established in connection with our director deferral plans, pursuant to which non-employee directors may elect to defer directors' quarterly cash compensation to be paid at a later date in the form of common stock.

Item 3. **Defaults Upon Senior Securities.**

None

Item 4. **Mine Safety Disclosures.**

Not applicable.

Item 5. **Other Information.**

None

Item 6. Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Flowserve Corporation, as amended and restated effective May 20, 2021 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 25, 2021).
3.2	Flowserve Corporation By-Laws, as amended and restated effective August 16, 2022 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 17, 2022).
10.1+	Flowserve Corporation Executive Officer Severance Plan, as amended and restated August 17, 2022*.
10.2+	Flowserve Corporation Annual Incentive Plan, as amended and restated August 17, 2022*.
31.1+	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2022, formatted in Inline XBRL (included as Exhibit 101)

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

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

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

	FLOWSERVE CORPORATION
Date: October 31, 2022	/s/ Amy B. Schwetz
	Amy B. Schwetz Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: October 31, 2022	/s/ Scott K. Vopni
	Scott K. Vopni Vice President and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT 10.1

FLOWSERVE CORPORATION
EXECUTIVE OFFICER SEVERANCE PLAN

Amended and Restated Effective August 17, 2022

Article I
Introduction

Flowserve Corporation established and adopted the Flowserve Corporation Executive Officer Severance Plan (the "***Plan***"), effective as of January 1, 2007, to provide financial and transitional assistance to Eligible Executive Officers who separate from the Company or a Subsidiary due to a Reduction-in-Force or due to a termination of employment without Cause in order to assure the Company of the continued attention and dedication to duty of Eligible Executive Officers and to ensure the continued availability of service by Eligible Executive Officers during periods of work force reduction or reorganization. The Plan was formerly known as the Flowserve Corporation Officer Severance Plan. The Company previously amended and restated the Plan effective January 1, 2010, June 1, 2012, February 14, 2017, and November 2, 2018. The Company hereby amends and restates the Plan as set forth herein effective as of August 17, 2022 (the "***Effective Date***"). The Plan is intended to constitute an "employee welfare benefit plan," as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("***ERISA***").

Except as otherwise provided below, as of the Effective Date, the Plan replaces any and all severance pay plans, policies, practices, arrangements or programs, written or unwritten, that the Company may have had in effect for its Eligible Executive Officers from time to time prior to the Effective Date; any Eligible Executive Officer whose employment is terminated on or after the Effective Date shall not be entitled to any severance benefits other than those set forth herein. Notwithstanding the foregoing, nothing in the Plan shall adversely affect the rights an individual Eligible Executive Officer may have to severance payments under the Flowserve Corporation Change in Control Severance Plan (or any successor plan thereto) (the "***CIC Plan***") or any written agreement executed by and between the Company or a Subsidiary and that Eligible Executive Officer (a "***Severance Agreement***"), including, without limitation, any restrictive covenant agreement by and between the Company or a Subsidiary and an Eligible Executive Officer (a "***Restrictive Covenant Agreement***"); provided, however, that in the event any Eligible Executive Officer that is a party to a Severance Agreement or who is eligible for benefits under the CIC Plan suffers a termination of employment and is entitled to and is receiving the severance benefits intended to be provided under his or her Severance Agreement or the CIC Plan, such Eligible Executive Officer shall not be entitled to receive severance benefits pursuant to the Plan, unless such Eligible Executive Officer is entitled to severance benefits pursuant to a Restrictive Covenant Agreement, in which case, such Eligible Executive Officer shall receive benefits under such agreement first, and then shall be eligible for benefits under the Plan to the extent such benefits are not duplicative of the benefits previously paid pursuant to such agreement, with the maximum severance benefits payable to such Eligible Executive Officer under both the Plan and such agreement equal to the maximum aggregate benefit payable to such Eligible Executive Officer under the Plan.

A. Definitions

The words used in the Plan shall have the respective meanings set forth below. Except as otherwise indicated by the context, the definition of any term herein in the singular shall also include the plural, and vice versa.

a. *Administrator* means the Chief Human Resources Officer of the Company, or, if the claim for benefits hereunder affects the Chief Human Resources Officer of the Company, such entity or individual as may be designated by the Organization and Compensation Committee.

b. *Appeals Administrator* means the Chief Executive Officer of the Company, or, if the claim for benefits hereunder affects the Chief Executive Officer, such entity or individual as may be designated by the Organization and Compensation Committee.

c. *Cause* means: (a) the willful and continued failure by an Eligible Executive Officer to substantially perform his or her duties with the Company or a Subsidiary (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Eligible Executive Officer by the Company's board of directors (the "***Board***") which specifically identifies the manner in which the Board believes that he or she has not substantially performed his or her duties; or (b) the willful engaging by an

Eligible Executive Officer in conduct materially and demonstrably injurious to the Company, monetarily or otherwise; provided, however, that if the Eligible Executive Officer has entered into an employment agreement that is binding as of the date of the event or action otherwise determined to be "Cause," and if such employment agreement defines "Cause," such definition of "Cause" shall apply. No act, or failure to act, shall be considered "willful" if, in the Eligible Executive Officer's sole judgment, the action or omission was done, or omitted to be done, in good faith and with a reasonable belief that his or her action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Eligible Executive Officer shall not be deemed to have terminated for Cause unless and until there shall have been delivered to him or her a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire authorized membership of the Board (excluding the Eligible Executive Officer, if applicable), at a meeting of the Board, called and held for the purpose (after reasonable notice to the Eligible Executive Officer and an opportunity for the Eligible Executive Officer, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Eligible Executive Officer was guilty of conduct set forth above in clause (a) or (b) of this Section 2.3, and specifying the particulars thereof in detail.

d. *Code* means the Internal Revenue Code of 1986, as amended.
e. *Company* means Flowserve Corporation, a New York corporation, and its successors and assigns.
f. *Disability* means a long-term disability as defined in and meeting the terms and conditions of the appropriate plan of the Company or a Subsidiary that provides long-term disability benefits to the Company's or a Subsidiary's eligible employees (or, as set forth in any successor plans), as applicable to the Eligible Executive Officer, or, if no long-term disability plan is in place or is applicable to the Eligible Executive Officer, a physical or mental condition resulting from bodily injury, disease, or mental disorder which prevents the Eligible Executive Officer from performing his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Administrator, based upon medical reports or other evidence satisfactory to the Administrator.
g. *Eligible* Executive *Officer* means an Executive Officer or an employee who served in an Interim Chief Financial Officer role for Company during the two year period prior to November 2, 2018 who is (a) terminated by the Company or a Subsidiary in connection with a Reduction-in-Force, or (b) terminated by the Company or a Subsidiary without Cause; provided, however, in each case, if a Subsidiary has not adopted the Plan pursuant to Article V hereof, no Executive Officer of that Subsidiary shall be an Eligible Executive Officer.
h. *Executive Officer* means any Vice President or higher of the Company who has been appointed by the Company's Board of Directors as an Executive Officer.
i. *Organization and Compensation Committee* means the Organization and Compensation Committee established and appointed by the Board of Directors.
j. *Plan* means the Flowserve Corporation Executive Officer Severance Plan, as set forth herein, formerly known as the Flowserve Corporation Officer Severance Plan.
k. *Reduction-in-Force* means the separation of an Executive Officer from employment with the Company or a Subsidiary because of a work force reduction, restructuring, or other cost containment or business decision as designated by the Administrator, in its sole and absolute discretion, from time to time.
l. *Separation from Service* means a termination of services provided by an Eligible Executive Officer to the Company or a Subsidiary whether voluntarily or involuntarily, other than for death or Disability, as determined by the Administrator in accordance with Treas. Reg. § 1.409A-1(h).
m. *Severance Benefit* means a benefit to which an Eligible Executive Officer may become entitled pursuant to Article III hereof.
n. *Special End of Service*. Special End of Service shall mean the voluntary termination of an Eligible Executive Officer's employment for any reason other than death, Disability, Reduction-In-Force or Cause on or after the date the Eligible Executive Officer attains both (i) age 55 and (ii) 10 years of service with the Company or a Subsidiary.
o. *Specified Employee* means any Eligible Executive Officer who meets the definition of "specified employee," as defined in the regulations issued under Section 409A of the Code and using the identification methodology selected by the Organization and Compensation Committee from time to time in accordance with Treas. Reg. § 1.409A-1(i).
p. *Subsidiary* means any entity in which the Company, directly or indirectly, holds a majority of the voting power or profits or capital interest of such entity.

B. Severance Benefits

a. <u>Eligibility for Severance Benefits</u>.

   i. An Eligible Executive Officer shall be entitled to receive a Severance Benefit in accordance with this Article III only if the Administrator, in its reasonable discretion, determines that:

      1. the Eligible Executive Officer's employment with the Company or a Subsidiary has been involuntarily terminated as the result of a Reduction-in-Force or without Cause. For purposes of clarity, an Eligible Executive Officer shall be entitled to receive a Severance Benefit only if such termination constitutes an involuntary Separation from Service;
      2. the Severance Benefit described herein is not otherwise duplicative of payments already owed to the Eligible Executive Officer under an employment, pre-existing retention, severance, change-in-control, or other special compensation agreement or pursuant to any applicable laws;
      3. the Eligible Executive Officer has not otherwise received and accepted an offer of employment with (A) the Company, (B) a Subsidiary, (C) another company providing services to the Company or a Subsidiary, or (D) any other company that entered into an agreement with the Company or a Subsidiary to purchase, acquire, or transfer the stock or assets of the Company, a Subsidiary, or a group, function or part of the Company or a Subsidiary;
      4. the Eligible Executive Officer has not otherwise declined an offer of employment, the terms of which would have permitted the Eligible Executive Officer to continue employment within fifty (50) miles of the location in which the Eligible Executive Officer performed substantially all of his or her services immediately prior to the Reduction-in-Force, with (A) the Company, (B) a Subsidiary, (C) another company providing services to the Company or a Subsidiary, or (D) any other company that entered into an agreement with the Company or a Subsidiary to purchase, acquire, or transfer the stock or assets of the Company, a Subsidiary, or a group, function or part of the Company or a Subsidiary;
      5. the Eligible Executive Officer has not terminated from the Company or a Subsidiary for any of the following reasons:
         a. death,
         b. Disability,
         c. resignation,
         d. Special End of Service, or
         e. discharge for Cause;
      6. the Eligible Executive Officer continues to comply with the provisions of any written agreement in effect between the Eligible Executive Officer and the Company or a Subsidiary that contains non-competition, confidentiality and/or non-solicitation provisions, including, without limitation, the terms and conditions of any Restrictive Covenant Agreement; and
      7. the Eligible Executive Officer has executed and timely provided a release and covenant not to sue in a form reasonably satisfactory to the Company.

   ii. Notwithstanding anything herein to the contrary, if an Eligible Executive Officer has otherwise satisfied the criteria described in Section 3.1(a) above and is rehired by the Company or a Subsidiary, such Eligible Executive Officer's entitlement to further Severance Benefit payments shall cease immediately, unless the Administrator, in its sole and absolute discretion, determines that the relationship between the former Eligible Executive Officer and the Company or a Subsidiary for whom services are being provided constitutes a non-employee consulting relationship and that continued payment of such benefits is permitted by applicable law without adverse consequences to either the Company or the Subsidiary or the Eligible Executive Officer, including, without limitation, under Section 409A of the Code, as determined by the Administrator in its sole and absolute discretion. Regardless of the nature of a former Eligible Executive Officer's relationship with the Company or Subsidiary, if such former Eligible Executive Officer provides services to or for the Company or a Subsidiary following a Reduction-in-Force, such former Eligible Executive Officer shall not be obligated to repay any Severance Benefits that have been paid pursuant to the Plan.

b. *Salary Continuation*.

i. Salary continuation benefits paid to an Eligible Executive Officer who has satisfied the applicable requirements reflected in Section 3.1 above shall be based upon the amounts determined under Section 3.2(b) below and shall continue until the earlier of:

1. the date that is twenty-four (24) months following the Eligible Executive Officer's termination of employment, or
2. the date the Eligible Executive Officer fails to comply with the provisions of any written agreement in effect between the Eligible Executive Officer and the Company or a Subsidiary that contains non-competition, confidentiality and/or non-solicitation provisions, including, without limitation, the terms and conditions of any Restrictive Covenant Agreement.

ii. The amount of each salary continuation benefit payment that shall be paid to an Eligible Executive Officer during the applicable salary continuation period described in Section 3.2(a) above shall be calculated by the Administrator, in its sole and absolute discretion, by dividing the Eligible Executive Officer's annual base salary (excluding all bonuses and financial perquisites) immediately prior to the Eligible Executive Officer's termination of employment by the number of regularly scheduled paydays on which the Eligible Executive Officer would have otherwise been paid during the year if a termination of employment had not occurred; provided, however, that if an Eligible Executive Officer is on an approved short-term disability leave or on designated leave pursuant to the Family and Medical Leave Act or other similar law, such Eligible Executive Officer's salary continuation benefits shall be based upon the Eligible Executive Officer's salary immediately preceding the inception of the leave.

iii. Salary continuation benefits shall commence on the date that would have otherwise been the Eligible Executive Officer's next regularly scheduled payday following the later of (i) the Eligible Executive Officer's termination of employment or (ii) the expiration of the revocation period provided in the release executed by the Eligible Executive Officer in connection with the Plan (provided that if the time period for executing and returning the release begins in one taxable year and ends in a second taxable year, such salary continuation benefits shall not commence until the second taxable year). Notwithstanding the foregoing, if the Eligible Executive Officer is a Specified Employee, to the extent any amount payable pursuant to this Section 3.2 is subject to, and not otherwise exempt from the requirements of Section 409A of the Code, no payment of such amount shall be made before the first day after the end of the six (6) month period immediately following the date on which the Eligible Executive Officer experiences a Separation from Service, or if earlier, on the date of the Eligible Executive Officer's death.

iv. Each amount that is paid to an Eligible Executive Officer pursuant to this Section 3.2 shall be treated as a separate payment for purposes of Section 409A of the Code.

c. *Annual Incentive Plan Equivalent Bonus*.

i. In addition to the salary continuation benefit described in Section 3.2 above, each Eligible Executive Officer who is terminated by the Company or a Subsidiary in connection with a Reduction-in-Force or without Cause shall be entitled to receive a lump-sum supplemental severance payment, as described in this Section 3.3(a). Provided that the Company actually satisfies the threshold performance goals for a performance metric established under the Flowserve Corporation Annual Incentive Plan for the performance period in which the Eligible Executive Officer's termination of employment occurs, the Eligible Executive Officer will be entitled to receive a supplemental severance payment in an amount substantially equivalent to the amount of such Eligible Executive Officer's target bonus opportunity allocated to that particular performance metric under the Flowserve Corporation Annual Incentive Plan. For the avoidance of doubt, (i) no amount shall be payable under this Section 3.3(a) in respect of any performance metric for which the threshold performance goal is not attained; and (b) in no event may the lump-sum supplemental severance payment described in this Section 3.3(a) be any higher than the Eligible Executive Officer's total target bonus opportunity under the Flowserve Corporation Annual Incentive Plan. The Eligible Executive Officer shall not receive a

Flowserve Corporation Annual Incentive Plan payment for the performance period in which the Eligible Executive Officer's termination of employment occurs.

ii. Payment of a supplemental severance payment described in Section 3.3(a) above, shall be made at the same time as payments are made under the Flowserve Corporation Annual Incentive Plan; provided, however, that if the Eligible Executive Officer is a Specified Employee, to the extent any amount payable pursuant to this Section 3.3 is subject to, and not otherwise exempt from the requirements of Section 409A of the Code, no payment of such amount shall be made before the first day after the end of the six (6) month period immediately following the date on which the Eligible Executive Officer experiences a Separation from Service, or if earlier, on the date of the Eligible Executive Officer's death.

d. *Stock Plan Participation*.

i. In addition to the salary continuation benefit described in Section 3.2 above and the supplemental severance payment described in Section 3.3 above, each Eligible Executive Officer who is terminated by the Company or a Subsidiary in connection with a Reduction-in-Force or without Cause shall continue to remain eligible to receive a pro-rated amount of the performance shares or units, as applicable, granted under the Company's Equity and Incentive Compensation Plan or a successor plan (the "***Equity Plan***") that are outstanding on his or her termination date and that has a performance cycle that will end in the year that contains the termination date based on the number of months completed for the performance cycle. Whether the performance shares or units, as applicable, ultimately vest on the vesting date will be determined by the Board in its normal course of business in accordance with the terms and conditions of the Equity Plan.

ii. In addition to the salary continuation benefit described in Section 3.2 above, the supplemental severance payment described in Section 3.3 above, and the pro-rated amount for the performance shares or units, as applicable, each Eligible Executive Officer who is terminated by the Company or a Subsidiary in connection with a Reduction-in-Force or without Cause who has an outstanding restricted stock award that was granted prior to February 15, 2022, and that would otherwise vest within ninety (90) calendar days after the Eligible Executive Officer's termination date will be eligible to receive a cash payment in lieu of such restricted stock award. The cash payment in lieu of the restricted stock award will be calculated by multiplying (1) the number of shares that would otherwise vest within ninety (90) calendar days after the Eligible Executive Officer's termination date by (2) the average closing price per share of the Company's Common Stock on the applicable national stock exchange during the last twenty (20) trading days in the month preceding the Eligible Executive Officer's termination date, unless there are less than twenty (20) trading days in the month preceding the Eligible Executive Officer's termination date, and then the total number of trading days in the month preceding the Eligible Executive Officer's termination date. The amount payable pursuant to this Section 3.4(b) shall be paid in a lump sum within sixty (60) days of the Eligible Executive Officer's date of termination. For the avoidance of doubt, any outstanding time-based awards granted under the Equity Plan shall be treated as set forth in the applicable grant agreement and Equity Plan document.

C. Claims Procedures

a. *Initial Claim*. If an individual makes a written request alleging a right to receive benefits under the Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Administrator shall treat it as a claim for benefits. All claims for benefits under the Plan shall be sent in writing to the Administrator and must be received within thirty (30) days after the effective date of the Eligible Executive Officer's termination of employment. If the Administrator, in its sole and absolute discretion, determines that a claimant is not entitled to receive all or any part of the benefits claimed, the Administrator will inform the claimant in writing of its determination and an explanation regarding the reason for its determination.

b. *Initial Claim Determination*.

i. Once the Administrator makes a determination regarding a claim, the Administrator will send, by means of U.S. mail, hand delivery or e-mail, a written notice providing:

1. the Administrator's determination,
2. the basis for the determination (along with appropriate references to pertinent provisions on which the denial is based),

3. a description of any additional material or information necessary to perfect the claim and an explanation of why such material is necessary, and
4. the procedure that must be followed to obtain a review of the determination, including a description of the appeals procedure and how to bring a civil action for benefits under section 502(a) of ERISA.

ii. The initial claim determination notice described above will be provided within a reasonable period of time, but no later than ninety (90) days from the day the Administrator received the claim, unless grounds for an extension (reflected in Section 4.2(c) below) exist.

iii. Grounds for an extension may arise in certain instances when the Administrator, for reasons beyond its control, cannot make a determination within the initial ninety (90) day period. In such situations, the Administrator, acting in its sole and absolute discretion, may extend the initial ninety (90) day period for up to an additional ninety (90) days (for a total of 180 days); provided the Administrator:
1. determines that an extension is necessary due to matters beyond its control, and
2. provides the claimant with written notice (which may be communicated by mail, hand delivery, or e-mail) prior to the expiration of the initial determination period that:
   a. an extension is necessary,
   b. the reason for the extension, and
   c. when a determination is expected to be rendered.

c. *<u>Appeal of a Denied Claim</u>*.

i. If a claim for benefits is denied, either in whole or in part, and the claimant wants to contest such denial, the claimant must appeal the Administrator's denial by requesting a review of the claim by the Appeals Administrator. A claimant has the following rights if a claim for benefits is denied (whether in whole or in part):
1. an opportunity to request an appeal,
2. the ability to submit written comments, documents, records and other information in connection with the appeal, and
3. reasonable access to, and copies of, all documents, records, and other information relevant to the denied claim at no charge.

ii. If a claimant chooses to file an appeal of a claim that was denied in whole or in part, the request for review must be received within sixty (60) days of the date in which the claimant received notice from the Administrator indicating that the initial claim was denied.

iii. The review of an initial adverse determination by the Appeals Administrator will take into account all comments, documents, records and other information that has been submitted, without regard to whether such information was submitted and considered by the Administrator in the initial determination.

iv. In reviewing appeals, no deference will be given to an initial adverse benefit determination by the Administrator, and the review itself will be conducted by an appropriate named fiduciary who is neither the individual who made the adverse benefit determination that is the subject of the appeal nor the subordinate of such individual.

v. If, following an appeal, a claim is denied, either in whole or in part, after a review of the appeal and any additional information that a claimant has submitted, a notice containing the following information (which will be provided in writing by U.S. mail, hand delivery, or e-mail) will be provided within a reasonable period of time, but not later than sixty (60) days from the date that a request for a review was received, unless grounds for an extension reflected in Section 4.3(f) below exist:
1. the specific reason or reasons for the decision, including any adverse determinations,
2. references to the specific provisions on which the determination was based,
3. a statement describing how to request reasonable access to, and copies of, all documents, records, and other information that is relevant to the denied claim (free of charge),
4. a description of any voluntary appeals procedure, if any, and how to obtain information about such procedure, and
5. the ability to bring a cause of action for benefits under section 502(a) of ERISA.

vi. Grounds for an extension may arise in certain instances when, due to events beyond the Appeals Administrator's control, a decision cannot be made within the initial sixty (60) day period. In such situations, the initial sixty (60) day period may be extended for up to an additional sixty (60) days (for a total of one-hundred and twenty (120) days); provided:

1. a determination is made that an extension is necessary due to matters beyond the Appeals Administrator's control, and
2. the claimant is provided with written notice (which may be communicated by mail, hand delivery, or e-mail) prior to the expiration of the initial determination period that:
    a. an extension is necessary,
    b. the reason for the extension, and
    c. when a determination is expected to be rendered.

D. Adoption of the Plan by Subsidiaries

The Plan may be adopted by any Subsidiary if the Organization and Compensation Committee or its delegate approves such adoption. Upon such adoption, the provisions of the Plan shall be fully applicable to the Eligible Executive Officers of that Subsidiary. At any time that a Subsidiary ceases to qualify as a Subsidiary, it shall no longer be eligible to participate hereunder and any Eligible Executive Officers in its employ shall no longer be eligible to receive benefits under the Plan.

A. Amendment and Termination

a. *Amendment and Termination*. Although the Company expects to continue the Plan for a five (5) year period from the Effective Date, the Plan may be amended, changed, replaced, extended or terminated by the Organization and Compensation Committee or its delegate at any time, in its sole and absolute discretion. The Organization and Compensation Committee or its delegate shall have full authority to amend any provision of the Plan to reduce, eliminate or alter benefits payable hereunder, or to alter, in any way, the criteria for eligibility to participate herein.

b. *Form of Amendment*. The form of any Amendment of the Plan shall be a written instrument signed by any person authorized to sign by the Organization and Compensation Committee or its delegate. An amendment of the Plan in accordance with the terms hereof shall automatically effect a corresponding amendment to the rights of all Eligible Executive Officers hereunder.

B. Miscellaneous

a. *Employment Status*. The Plan does not constitute a contract of employment or impose upon the Company or any Subsidiary any obligation to retain the Eligible Executive Officer as an employee, to change or not change the status of the Eligible Executive Officer's employment, or to change the Company's policies or those of its Subsidiaries regarding termination of employment.

b. *Validity and Severability*. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

c. *Governing Law*. To the extent not preempted by ERISA, the Plan and all provisions hereunder shall be governed by, administered under, and construed in accordance with the laws of the state of Texas, without giving effect to principles of conflict of law.

d. *Funding*. The Plan is funded through the general assets of the Company and all payments of Severance Benefits with respect to a particular Eligible Executive Officer shall be paid from the general assets of the Company. Neither the Company nor the Administrator shall have any obligation to establish a trust or fund for the payment of benefits under the Plan or to insure any of the benefits under the Plan. None of the officers, members of the Board, or agents of the Company, any Subsidiary or the Administrator guarantees in any manner the payment of benefits hereunder.

C. General Information

a. *Official Plan Name*. Flowserve Corporation Executive Officer Severance Plan Section

b. *Plan Sponsor*.

Flowserve Corporation

5215 N. O'Connor Blvd. Irving, TX 75039 (972) 443-6500

a. *Employer Identification Number*. 31-0267900

b. Plan Number. 504

c. *Plan Year*. January 1 through December 31

d. *Type of Plan*. Welfare benefit plan providing severance benefits to certain officers in the event of a reduction-in-force or termination without Cause.
e. *Type of Administration.* The Plan is administered by the Plan Administrator.
f. *Claims Administrator.* The Plan Administrator for the Flowserve Corporation Executive Officer Severance Plan:
Flowserve Corporation 5215 N. O’Connor Blvd. Irving, TX 75039 (972) 443-6500
a. *Agent for Service of Legal Process*. Flowserve Corporation
General Counsel 5215 N. O’Connor Blvd. Irving, TX 75039 (972) 443-6500
a. *Funding.* The Plan is funded through the general assets of the Company.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed this 17th day of August, 2022.

FLOWSERVE CORPORATION

Date: August 17, 2022

/s/ Susan Hudson
Susan Hudson
Sr. Vice President and Chief Legal Officer

EXHIBIT 10.2

FLOWSERVE CORPORATION
ANNUAL INCENTIVE PLAN
As Amended and Restated Effective August 17, 2022

A. ESTABLISHMENT AND PURPOSE

a. Establishment of the Plan

Flowserve Corporation, a New York corporation, hereby establishes an annual incentive compensation plan known as the Flowserve Corporation Annual Incentive Plan, effective as of August 17, 2022 (the "**Plan**"). The Plan permits the Company to award annual incentive award payouts to Participants based on the achievement of pre-established performance goals. The Plan shall continue to be effective until terminated by the Board, pursuant to Article 10.

a. Purpose

The primary purposes of the Plan are to:

i. motivate Participants towards achieving annual goals that are within corporate, divisional, group and/or local facility control and are considered key to the Company's success;

ii. encourage teamwork among Participants in various segments of the Company; and

iii. reward performance with pay that varies in relation to the extent to which the pre-established goals are achieved.

B. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below:

a. Award Opportunity

means the various levels of incentive award payouts that a Participant may earn under the Plan, as established by the Committee pursuant to Section 5.1 and Section 5.2 herein.

a. Board

means the Board of Directors of the Company.

a. Cause

means any of the following events:

i. the continued failure by the Participant to substantially perform his or her duties with the Company or any of its Subsidiaries,

ii. conviction of a felony or the Participant's plea of guilty or nolo contendre to a felony,

iii. the willful engaging by the Participant in gross misconduct which is injurious to the Company,

iv. the Participant's violation of the Company's or any of its Subsidiaries' policies and procedures and/or the Flowserve Code of Business Conduct, or

v. any other action or reason arising from the conduct of a Participant determined to be cause in the absolute Discretion of the Committee.

b. Change in Control

has the meaning set forth in the Flowserve Corporation 2020 Long-Term Incentive Plan, as amended from time to time.

a. Code

means the U.S. Internal Revenue Code of 1986, as amended from time to time.

a. Committee

means the Organization and Compensation Committee established and appointed by the Board.

a. Company

means Flowserve Corporation, a New York corporation and its successors and assigns.

a. Disability

means a long-term disability as defined in and meeting the terms and conditions of the appropriate plan of the Company or any of its Subsidiaries that provides long-term disability benefits to the Company's or any of its Subsidiaries' eligible employees (or, as set forth in any successor plans), as applicable to the Participant, or, if no long-term disability plan is in place or is applicable to the Participant, a physical or mental condition resulting from bodily injury, disease, or mental disorder which prevents the Participant from performing his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee or its delegate, based upon medical reports or other evidence satisfactory to the Committee or its delegate.

a. Discretion or Discretionary

means the Committee's sole and exclusive right to make determinations.

a. Eligible Earnings

means (i) base salary on a date selected by the Committee or its delegate between December 1st and December 31st of a Performance Period or actual base salary paid for the Performance Period, as determined by the Committee or its delegate; (ii) overtime pay for United States and Canadian-based Employees; and (iii) actual premium pay for United States and Canadian-based Employees. "Eligible Earnings" excludes all amounts not otherwise enumerated in this Section 2.10, including, without limitation:

a. Annual Incentive Plan awards for prior years,
b. awards under the Flowserve Corporation 2020 Long-Term Incentive Plan, any prior or successor equity plan, and any other long-term cash or equity-based incentive awards,
c. commissions,
d. discretionary and non-discretionary bonuses,
e. payouts of unused vacation or other time off,
f. relocation reimbursements or allowances,
g. long-term disability pay (other than paid light duty long-term disability),
h. severance pay,
i. expense reimbursements,
j. car allowances,
k. tax/financial planning reimbursements,
l. club dues, and
m. foreign service allowances.

b. Employee

means any person paid through the payroll department of the Company or its Subsidiaries (as opposed to the accounts payable department of the Company); provided, however, that the term "Employee" shall not include any Person who has entered into an independent contractor agreement, consulting agreement, franchise agreement or any similar agreement with the Company or any of its Subsidiaries, nor the employees of any such Person, regardless of whether that Person (including his or her employees) is later found to be an employee of the Company or any of its Subsidiaries by any court of law or regulatory authority.

a. Final Award

means the actual award earned during a Performance Period by a Participant, as determined by the Committee following the end of the Performance Period.

a. Participant

means an Employee chosen by the Committee to participate in the Plan as provided for in Article 4 herein.

a. Performance Period

means the twelve (12) month period beginning January 1st and ending December 31st over which performance is measured for purposes of determining Final Awards, or such other period determined by the Committee in its absolute Discretion.

a. Plan

means the Flowserve Corporation Annual Incentive Plan, as set forth herein, as the same may be amended from time to time.

a. Special Termination

means the termination of a Participant's employment for any reason other than death, Disability, Cause or a reduction-in-force on or after the date the Participant attains both (i) age 55 and (ii) 10 years of service with the Company.

a. Subsidiary

means any entity in which the Company, directly or indirectly, holds a majority of the voting power or profits or capital interest of such entity.

a. Target Incentive Award

means the award to be paid to a Participant when the Company meets targeted performance results, as established by the Committee. This award is based on the Employee's Eligible Earnings and his or her level of responsibility.

A. ADMINISTRATION

a. The Committee

The Plan shall be administered by the Committee or its delegate. Membership on the Committee shall be limited to those members of the Board who are independent directors as required by the New York Stock Exchange "NYSE" rules.

a. Authority of the Committee

(a) Except as limited by law or by the certificate of incorporation or bylaws of the Company and subject to the provisions herein, the Committee or its delegate shall have full power to:

1. select Employees who shall participate in the Plan;
2. determine the size and types of Award Opportunities and Final Awards;
3. determine the terms and conditions of Award Opportunities in a manner consistent with the Plan;
4. construe and interpret the Plan and any agreement or instrument entered into under the Plan;
5. establish, amend, or waive rules and regulations for the Plan's administration;
6. amend the terms and conditions of any outstanding Award Opportunity to the extent such terms and conditions are within the Discretion of the Committee as provided in the Plan; and
7. to the extent permitted by law, delegate the authority described herein.

i. The Committee, or its delegate, shall also make all other determinations which may be necessary or advisable for the administration of the Plan.

b. Decisions Binding

All determinations and decisions of the Committee as to any disputed question arising under the Plan, including questions of construction and interpretation, shall be final, binding and conclusive upon all parties.

a. Indemnification

(a) Each person who is or shall have been a member of the Committee or its delegate shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party, or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf.

i. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

B. ELIGIBILITY AND PARTICIPATION

a. Eligibility

Only Employees shall be eligible to participate in the Plan. Independent contractors and employees of third parties who are performing work on behalf of the Company, whether part-time, full-time, or temporary, shall not be eligible to participate in the Plan. Employees who participate in a sales incentive plan are ineligible to participate in the Plan.

a. Participation

(a) Participation in the Plan is Discretionary and shall be determined on an annual basis by the Committee. Participants shall be notified of their participation in the Plan in writing and shall be apprised of the terms of the Plan as soon as practical following the Committee's Discretionary determination.

i. Participation in the Plan and the receipt of an award under the Plan requires that a Participant be in an employment relationship with the Company or a Subsidiary on December 31st of the respective year to which the award or benefit relates; provided that, to the extent permitted by applicable law the Committee may determine for any Performance Period to require continued employment with Company or a Subsidiary through the applicable payment date of any Final Award.

b. Partial Performance Period Participation

An Employee who becomes eligible to participate in the Plan after the beginning of a Performance Period may participate on a pro rata basis in the Plan for that Performance Period. The Committee, in its Discretion, retains the right to increase or decrease the number of days the Employee participates in the Plan for the initial Performance Period of eligibility or to reflect any period the Employee is on a leave of absence.

a. No Right to Participate

No Employee shall at any time have a right to participate in the Plan for any Performance Period, despite having previously participated in the Plan. All awards and other benefits granted under the Plan are of a voluntary nature. The grant of an award or the benefit of participating in the Plan shall not create a claim for future awards, benefits or participation in the Plan even if awards or benefits have been granted to a Participant repeatedly over previous Plan years.

A. AWARD DETERMINATION

Section 5.1 Performance Measures and Performance Goals

Prior to the beginning of each Performance Period, or as soon as practicable thereafter, the Committee shall select performance measures and shall establish performance goals for that Performance Period.

Award Opportunities

Prior to the beginning of each Performance Period, or as soon as practicable thereafter, the Committee shall establish, in writing, Award Opportunities (including a Participant's Target Incentive Award) which correspond to various levels of achievement of the pre-established performance goals. In the event a Participant changes job levels during a Performance Period, the Participant's Award Opportunity may be adjusted to reflect the amount of time at each job level during the Performance Period. The extent to which any applicable performance goals have been achieved shall be conclusively determined in writing by the Committee prior to payment of any Award Opportunity.

a. Adjustment of Performance Goals, Award Opportunities and Final Awards

(a) Although performance goals generally shall not be changed during the Performance Period, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, then the Committee may approve appropriate adjustments to the performance goals (either up or down) during the Performance Period as such goals apply to the Award Opportunities of all or any specified Participants.

i. Notwithstanding any other provision of this Plan, in the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of the Company that affects the fair value of an Award Opportunity, the Committee shall adjust any or all of the following so that the fair value of the Award Opportunity immediately after the transaction or event is equal to the fair value of the Award Opportunity immediately prior to the transaction or event: (i) the performance measures or performance goals related to the then-current Performance Periods; or (ii) the amount payable pursuant to the Award Opportunities for the then-current Performance Periods, provided, that in each case, such adjustment will not cause adverse tax consequences to any Participant under Section 409A of the Code.

ii. At the end of each Performance Period the Committee or its delegate, will compute Final Awards. The Committee or its delegate shall have the authority, in its absolute Discretion, to increase, or to reduce or eliminate the amount of the Final Award determination for each Participant based upon such Participant's individual performance during the Performance Period or upon any other objective or subjective criteria it deems appropriate.

b. Award Limit

The Committee may establish guidelines governing the maximum Final Awards that may be earned by Participants (either in the aggregate, by Employee class, or among individual Participants) in each Performance Period. The guidelines, if any, may be expressed as a percentage of Company-wide goals or financial measures, or such other measures as the Committee shall from time to time determine.

a. Threshold Levels of Performance

The Committee may establish minimum levels of performance goal achievement, below which no payouts of Final Awards shall be made to any Participant.

A. PAYMENT OF FINAL AWARDS

a. Form and Timing of Payment

Each Participant's Final Award shall be paid in one lump sum, in the year following the end of Performance Period on or before the June 30th of such year, provided, however, that the payment of a Final Award may be reduced or otherwise offset to satisfy any outstanding debt or obligation owed by the Participant to the

Company or a Subsidiary so long as such reduction or offset does not result in the Participant being subject to the additional tax imposed under Section 409A of the Code.

a. Unsecured Interest

No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

A. TERMINATION OF EMPLOYMENT

a. Termination of Employment Due to Death, Disability, or Special Termination

In the event a Participant's employment is terminated within the Performance Period by reason of death, Disability, or a Special Termination, the Final Award determined in accordance with Section 5.3 herein shall be calculated to reflect participation prior to termination only. In the case of a Participant's Disability, the employment termination shall be deemed to have occurred on the date that the Committee determines the definition of Disability to have been satisfied. The Final Award paid under this Section 7.1 shall be paid in accordance with Section 6.1.

a. Termination of Employment for Reasons Other than Death, Disability, Special Termination or in Connection with a Change in Control

In the event a Participant's employment is terminated and therefore a Participant ceases to be an Employee, within the Performance Period, for any reason other than death, Disability, Special Termination or a Change in Control (of which the Committee shall be the sole judge), all of the Participant's rights to a Final Award for the Performance Period then in progress shall be forfeited. However, except in the event of an involuntary termination of employment for Cause, the Committee, in its Discretion, may pay an award for the portion of the Performance Period that the Participant was employed by the Company, computed as determined by the Committee.

A. RIGHTS OF PARTICIPANTS

a. Employment

Nothing in the Plan shall be construed as giving any Participant the right to be retained in the employ of the Company or any right to any payment whatsoever, except to the extent of the benefits provided for by the Plan.

a. Nontransferability

No right or interest of any Participant in the Plan shall be assignable or transferable, or subject to any lien, directly, by operation of law or otherwise, including, but not limited to, execution, levy, garnishment, attachment, pledge and bankruptcy.

A. CHANGE IN CONTROL

In the event of a Change in Control, each Participant shall be entitled to a pro rata payment of his or her Target Incentive Award for the Performance Period during which such Change in Control occurs. The pro rata Target Incentive Award payment shall be calculated by dividing the number of months within the Performance Period prior to the effective date of the Change in Control by the annual twelve (12) month period (or such other number of months in the full Performance Period if not a year). In order to prorate a Target Incentive Award pursuant to the preceding sentence, the month in which the Change in Control occurs will not be considered a month within the Performance Period prior to the effective date of the Change in Control unless the Change in Control occurred after the fifteenth (15^{th}) day of such month. Such amount shall be paid to each Participant within forty-five (45) days after the effective date of the Change in Control and such payment will be made in lieu of any other payment to be made to a Participant for such Performance Period.

A. AMENDMENTS

The Company reserves the right, at any time and by action of the Board or the Committee, to amend or terminate the Plan in whole or in part and from time to time; provided, however that any action that would otherwise be adverse to a Participant shall be made on a prospective basis only unless required by applicable law.

A. MISCELLANEOUS

a. Governing Law and Proper Venue

The Plan and all provisions hereunder, shall be governed by and construed in accordance with the laws of the state of Texas without giving effect to principles of conflict of laws. The proper place of venue to enforce any terms or conditions of the Plan shall be Dallas County, Texas. Furthermore, any legal proceeding against the Company arising out of or in connection with the Plan shall be brought in the district courts of Dallas County, Texas, or the United States District Court for the Northern District of Texas, Dallas Division.

a. Withholding Taxes

The Company, or the applicable Subsidiary, shall have the right to deduct from all payments under the Plan any federal, state, local, or other taxes required by applicable law to be withheld with respect to such payments.

a. Compliance with Section 409A of the Code

The Plan is intended to comply with, or be exempt from, and shall be administered in a manner that is intended to comply with, or be exempt from, Section 409A of the Code and shall be construed and interpreted in accordance with such intent. Each Award Opportunity shall be awarded and/or issued or paid in a manner that will comply with, or be exempt from, Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. Any provision of the Plan that would cause an Award Opportunity to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by applicable law).

a. Non-Pensionable Status of Payments under the Plan

Unless otherwise expressly and specifically provided in a pension plan or local law, payments under the Plan shall not be taken into account for purposes of calculating an employee's pension benefits under any applicable pension plans.

a. Number

Except where otherwise indicated by the context, the plural shall include the singular and the singular shall include the plural.

a. Severability

In the event that any provision of the Plan shall be declared or adjudicated illegal, invalid or unenforceable for any reason whatsoever, then the illegal, invalid or unenforceable provision shall be deemed excised herefrom and the remaining parts of the Plan shall continue and remain in full force and effect and the Plan shall be construed and enforced as if such illegal, invalid or unenforceable provision had not been included herein.

a. Costs of the Plan

All costs of implementing and administering the Plan shall be borne by the Company and its Subsidiaries.

a. Successors

All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

The Company has caused the Plan to be executed this 17th day of August, 2022.

FLOWSERVE CORPORATION

Date: August 17, 2022

/s/ Susan Hudson

Susan Hudson
Sr. Vice President and Chief Legal Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, R. Scott Rowe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2022 of Flowserve Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2022

/s/ R. Scott Rowe

R. Scott Rowe
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Amy B. Schwetz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2022 of Flowserve Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2022

/s/ Amy B. Schwetz

Amy B. Schwetz
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, R. Scott Rowe, President and Chief Executive Officer of Flowserve Corporation (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: October 31, 2022

/s/ R. Scott Rowe

R. Scott Rowe
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Amy B. Schwetz, Senior Vice President and Chief Financial Officer of Flowserve Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: October 31, 2022

/s/ Amy B. Schwetz

Amy B. Schwetz
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)