FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2001   Commission File Number 1-13179

FLOWSERVE CORPORATION
(Exact name of Registrant as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or organization)

31-0267900
(I.R.S. Employer Identification Number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X   NO ___

SHARES OF COMMON STOCK, $1.25 PAR VALUE,
OUTSTANDING AS OF APRIL 25, 2001   37,922,589

FLOWSERVE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2001	2000
Sales	$ 444,035	$ 285,309
Cost of sales	306,461	186,080
Gross profit	137,574	99,229
Selling, general and administrative expense	100,105	77,783
Integration expense	19,139	--
Operating income	18,330	21,446
Net interest expense	31,810	6,206
Other income, net	(135)	(2,900)
Net (loss) earnings before income taxes	(13,345)	18,140
(Benefit) provision for income taxes	(4,805)	6,258
Net (loss) earnings	$ (8,540)	$ 11,882
Net (loss) earnings per share (basic and diluted)	$ (0.22)	$ 0.31
Average shares outstanding	38,187	37,810

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net (loss) earnings	$ (8,540)	$ 11,882
Other comprehensive (income) expense:		
Foreign currency translation adjustments	39,144	9,253
Cumulative effect of change in accounting principle, net of tax of $472 (Adoption of SFAS 133 -- See footnote 3)	(840)	--
Fair market adjustment of derivative instruments, net of tax benefit of $2,093	3,720	--
Other comprehensive expense	42,024	9,253
Comprehensive (loss) income	$(50,564)	$ 2,629

FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	MARCH 31, 2001 (UNAUDITED)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,621	$ 42,341
Accounts receivable, net	449,716	487,274
Inventories	314,468	305,958
Current deferred tax asset	42,007	39,726
Prepaid expenses	20,979	22,753
Total current assets	845,791	898,052
Property, plant and equipment, net	386,009	405,412
Goodwill, net	515,638	514,441
Other intangible assets, net	130,418	131,330
Other assets	160,165	160,908
Total assets	$ 2,038,021	$ 2,110,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 166,625	$ 172,366
Accrued liabilities	194,540	243,553
Long-term debt due within one year	27,020	18,098
Total current liabilities	388,185	434,017
Long-term debt due after one year	1,141,129	1,111,108
Postretirement benefits and deferred items	253,970	260,107
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value		
Shares authorized -- 1,000	--	--
Shares issued and outstanding -- None		
Common stock, $1.25 par value		
Shares authorized -- 120,000		
Shares issued and outstanding -- 41,484	51,856	51,856
Capital in excess of par value	65,742	65,785
Retained earnings	348,955	357,495
	466,553	475,136

Treasury stock at cost -- 4,026 and 4,048 shares	(92,311)	(92,545)
Deferred compensation obligation	6,743	6,544
Accumulated other comprehensive loss	(126,248)	(84,224)
Total shareholders' equity	254,737	304,911
Total liabilities and shareholders' equity	$ 2,038,021	$ 2,110,143

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Three Months Ended March 31,	
	2001	2000
CASH FLOWS -- OPERATING ACTIVITIES:		
Net (loss) earnings	$ (8,540)	$ 11,882
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	12,848	8,041
Amortization	6,051	2,574
Net (gain) loss on the sale of fixed assets	(224)	1
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	25,663	7,955
Inventories	(16,038)	(15,861)
Prepaid expenses	2,972	1,572
Other assets	(6,740)	(2,916)
Accounts payable	(12,300)	(2,535)
Accrued liabilities	(60,117)	(21,568)
Income taxes	(374)	(2,988)
Postretirement benefits and deferred items	(6,838)	(1,568)
Net deferred taxes	1,150	1,235
Net cash flows used by operating activities	(62,487)	(14,176)
CASH FLOWS -- INVESTING ACTIVITIES:		
Capital expenditures, net of disposals	(3,514)	(4,394)
Payment for acquisitions, net of cash acquired and dispositions	--	(22,172)
Net cash flows used by investing activities	(3,514)	(26,566)
CASH FLOWS -- FINANCING ACTIVITIES:		
Net repayments under lines of credit	--	(831)
Payments of long-term debt	(5,263)	(1,062)
Proceeds from long-term debt	50,000	36,798
Proceeds from issuance of common stock	389	168
Net cash flows provided by financing activities	45,126	35,073
Effect of exchange rate changes	(2,845)	(859)
Net change in cash and cash equivalents	(23,720)	(6,528)
Cash and cash equivalents at beginning of year	42,341	30,463
Cash and cash equivalents at end of period	$ 18,621	$ 23,935
Taxes (refunded) paid	$ (6,972)	$ 9,453
Interest paid	$ 48,296	$ 5,751

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(UNAUDITED)

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

1. ACCOUNTING POLICIES - BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of March 31, 2001, and the related consolidated statements of income, comprehensive income and cash flows for the three months ended March 31, 2001 and 2000 are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 2000 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year. Certain amounts in 2000 have been reclassified or restated to conform with the 2001 presentation.

2. INVENTORIES

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

Inventories and the method of determining costs were:

	MARCH 31, 2001	December 31, 2000
Raw materials	$ 54,359	$ 51,981
Work in process and finished goods	337,305	330,060
Less: Progress billings	(39,487)	(38,605)
	352,177	343,436
LIFO reserve	(37,709)	(37,478)
Net inventory	$ 314,468	$ 305,958
Percent of inventory accounted for by LIFO	66%	67%
Percent of inventory accounted for by FIFO	34%	33%

3. ADOPTION OF SFAS NO. 133 -- ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Company reclassified the transition adjustment relating to foreign currency forward contracts to earnings during the first quarter of 2001. At March 31, 2001, the fair-value of the hedging instruments is a liability of $7.5 million and included in other comprehensive income. The Company expects that within the next twelve months it will reclassify as expense $3.6 million of this amount recorded in accumulated other comprehensive income. The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. The maximum length of the contracts currently in place as of March 31, 2001 is about 2 years.

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

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. As of March 31, 2001, the Company had $150 million of notional amount in outstanding interest rate swaps with third parties. The maximum length of the interest rate swaps currently in place as of March 31, 2001 is approximately 6 years.

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

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair-value or cash flows of a hedge item (including hedged items such as firm

commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

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

4. ACQUISITION

In August 2000, the Company completed the acquisition of Ingersoll-Dresser Pump Company (IDP), a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. The transaction, which was accounted for as a purchase, was financed with a combination of senior secured financing and senior subordinated notes. Upon closing of the transaction, the existing Company debt was also refinanced.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of the acquisition. These allocations include $137.6 million for intangibles and $376.4 million recorded as goodwill. The purchase price allocation for this acquisition is preliminary and further refinements are likely to be made based on the final determination of the fair-value of the assets acquired and the resolution of remaining contingencies.

The operating results of IDP have been included in the consolidated statements of income from the date of acquisition.

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

PRO FORMA
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

	Three Months Ended March 31, 2000
Net sales	$ 460,241
Operating income	22,506
Net loss	(4,042)
Net loss per share (basic and diluted)	(0.11)

The pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions or events occurred on the dates specified, or to project the Company's results of operations for any future period.

5. RESTRUCTURING AND ACQUISITION RELATED CHARGES

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, are expected to result in the net reduction of approximately 1,200 positions upon estimated completion before the end of 2001. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel. The Company currently

estimates that the costs associated with the restructuring portion of the program will be approximately $68 million. The Company had originally estimated these costs to be approximately $61 million. The increase from the original estimate is primarily due to updated actuarial information for post-retirement and pension expense relating to a plant closure. This increase was offset by a non-cash reclassification from the restructuring accrual to post-retirement benefits and pension liabilities which resulted in a net reduction to the accrual of $8.8 million during the fourth quarter of 2000.

Approximately $44 million of the total cost relates to the IDP operations acquired and $28 million has been capitalized in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $24 million relates to the Flowserve operations and was recorded as restructuring expense in 2000.

During the first three months of 2001, the Company incurred $19.1 million in integration costs in conjunction with this program.

As of March 31, 2001, the program had resulted in a net reduction of 1,139 employees.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	$ 18,486	$ 12,398	$ 30,884
CASH EXPENDITURES	(5,729)	(4,029)	(9,758)
BALANCE AT MARCH 31, 2001	$ 12,757	$ 8,369	$ 21,126

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a reduction in workforce at those other locations.

The 1999 restructuring program is expected to result in a net reduction of approximately 275 employees at a cost of $12.9 million upon estimated completion during the second quarter of 2001. In addition, exit costs associated with the facilities closings were $3.0 million. As of March 31, 2001, the program has resulted in a net reduction of 268 employees.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$ 12,900	$ 2,960	$ 15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	12,798	2,960	15,758
Cash expenditures	(6,766)	(1,932)	(8,698)
Non-cash reduction	(4,364)	(1,028)	(5,392)
Balance at December 31, 2000	$ 1,668	$ --	$ 1,668
CASH EXPENDITURES	(495)	--	(495)
BALANCE AT MARCH 31, 2001	$ 1,173	$ --	$ 1,173

6. ASSETS HELD FOR SALE

The Company is in the process of selling certain facilities, machinery and equipment and other fixed assets as part of its plan to eliminate excess capacity by consolidating facilities. The Company is in the process of negotiating the sale of these facilities and fixed assets and expects the sale of such items to be completed by the end of 2002. The remaining assets not yet sold, totaling $9,172, have been identified separately within property, plant and equipment as Assets Held For Sale and have been recorded at their estimated net realizable value.

7. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

In connection with the IDP acquisition and as part of the related financing, the Company and newly formed Dutch subsidiary, Flowserve Finance B.V., issued an aggregate of $375 million of dollar-denominated senior subordinated notes (the dollar Notes and the Euro Notes), in private placements pursuant to Rule 144A and Regulation S. The dollar Notes and the Euro Notes are general unsecured obligations of the Company and Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly owned domestic subsidiaries and, in the case of the Euro Notes, by the Company.

The following condensed consolidating financial information presents:

(1) Condensed consolidating balance sheet as of March 31, 2001 and the related statements of income and cash flows for the three months ended March 31, 2001 of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

(2) Condensed consolidating balance sheet as of December 31, 2000 and the related statements of income and cash flows for the three months ended March 31, 2000, of (a) Flowserve Corporation, the parent, (b) the guarantor subsidiaries, (c) the non-guarantor subsidiaries, and the Company on a consolidated basis, and

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

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

Effective January 1, 2001, the Company effected a domestic legal reorganization. This primarily resulted in a reclassification between the Parent and Guarantor Subsidiaries.

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2001

PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL

Sales	$ --	$ --	$ 299,139	$ 170,796	$ (25,900)	$ 444,035
Cost of sales	--	--	217,716	114,645	(25,900)	306,461
Gross profit	--	--	81,423	56,151	--	137,574
Selling, general and administrative expense	7	--	68,965	31,133	--	100,105
Integration expense	--	--	15,448	3,691	--	19,139
Operating (loss) income	(7)	--	(2,990)	21,327	--	18,330
Net interest expense	6,961	224	21,330	3,900	(605)	31,810
Other (income) expense, net	--	3	(4,198)	3,455	605	(135)
Equity in loss (earnings) of subsidiaries	6,523	--	--	--	(6,523)	--
Net (loss) earnings before income taxes	(13,491)	(227)	(20,122)	13,972	6,523	(13,345)
(Benefit) provision for income taxes	(4,951)	--	(5,400)	5,546	--	(4,805)
Net (loss) earnings	$ (8,540)	$ (227)	$ (14,722)	$ 8,426	$ 6,523	$ (8,540)

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2000

	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ 39,531	$ 167,001	$ 101,430	$ (22,653)	$ 285,309
Cost of sales	25,825	116,826	66,082	(22,653)	186,080
Gross profit	13,706	50,175	35,348	--	99,229
Selling, general and administrative expense	13,453	41,785	22,545	--	77,783
Operating income	253	8,390	12,803	--	21,446
Net interest expense	(1,153)	7,119	162	78	6,206
Other (income) expense, net	(291)	(5,381)	2,850	(78)	(2,900)
Equity in (earnings) loss of subsidiaries	(10,812)	--	--	10,812	--
Net earnings before income taxes	12,509	6,652	9,791	(10,812)	18,140
Provision for income taxes	627	1,793	3,838	--	6,258
Net earnings (loss)	$ 11,882	$ 4,859	$ 5,953	$ (10,812)	$ 11,882

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
CONSOLIDATED BALANCE SHEET
MARCH 31, 2001

PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL

Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 35,211	$ (16,590)	$ 18,621
Intercompany receivables	43,097	--	54,363	100,013	(197,473)	--
Accounts receivable, net	12	--	234,787	214,917	--	449,716
Inventories	--	--	197,981	116,487	--	314,468
Current deferred tax asset	--	--	39,425	2,582	--	42,007
Prepaid expenses	--	--	15,983	4,996	--	20,979
Total current assets	43,109	--	542,539	474,206	(214,063)	845,791
Property, plant and equipment, net	34	--	215,642	170,333	--	386,009
Investment in subsidiaries	418,185	--	476,308	--	(894,493)	--
Intercompany receivables	859,996	83,958	11,548	29,039	(984,541)	--
Goodwill, net	--	--	458,421	57,217	--	515,638
Other intangible assets, net	--	--	113,536	16,882	--	130,418
Other assets	45,917	4,415	96,721	13,112	--	160,165
Total assets	$ 1,367,241	$ 88,373	$ 1,914,715	$ 760,789	$(2,093,097)	$ 2,038,021
Current liabilities:						
Accounts payable	$ 2,186	$ --	$ 101,523	$ 79,506	$ (16,590)	$ 166,625
Intercompany payables	4,194	2,279	71,046	119,954	(197,473)	--
Income taxes	--	--	--	--	--	--
Accrued liabilities	8,305	171	120,979	65,085	--	194,540
Long-term debt due within one year	26,500	--	520	--	--	27,020
Total current liabilities	41,185	2,450	294,068	264,545	(214,063)	388,185
Long-term debt due after one year	1,054,402	86,641	1	85	--	1,141,129
Intercompany payables	--	--	850,701	133,840	(984,541)	--
Post-retirement benefits and deferred items	16,917	--	195,688	41,365	--	253,970
Shareholders' equity:						
Serial preferred stock, $1.00 par value	--	--	--	--	--	--
Common shares, $1.25 par value	51,856	--	2	182,547	(182,549)	51,856
Capital in excess of par value	65,742	--	349,411	72,990	(422,401)	65,742
Retained earnings	348,955	(570)	243,921	117,768	(361,119)	348,955
	466,553	(570)	593,334	373,305	(966,069)	466,553
Treasury stock at cost	(92,311)	--	--	--	--	(92,311)
Accumulated other comprehensive (loss) income	(126,248)	(148)	(19,077)	(52,351)	71,576	(126,248)
Deferred compensation obligation	6,743	--	--	--	--	6,743
Total shareholders' equity	254,737	(718)	574,257	320,954	(894,493)	254,737
Total liabilities and shareholders' equity	$ 1,367,241	$ 88,373	$ 1,914,715	$ 760,789	$(2,093,097)	$ 2,038,021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2000

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 50,239	$ (7,898)	$ 42,341
Intercompany receivables	23,530	--	33,252	104,836	(161,618)	--
Accounts receivable, net	20,767	--	224,746	241,761	--	487,274
Inventories	10,432	--	181,258	114,268	--	305,958
Current deferred tax asset	--	--	38,765	961	--	39,726
Prepaid expenses	6,261	--	12,216	4,276	--	22,753
Total current assets	60,990	--	490,237	516,341	(169,516)	898,052
Property, plant and equipment, net	34,332	--	189,978	181,102	--	405,412
Investment in subsidiaries	791,437	--	443,092	--	(1,234,529)	--
Intercompany receivables	501,286	90,112	10,849	21,598	(623,845)	--
Goodwill, net	7,814	--	459,983	46,644	--	514,441
Other intangible assets, net	--	--	114,129	17,201	--	131,330
Other assets	52,991	4,865	97,861	5,191	--	160,908
Total assets	$ 1,448,850	$ 94,977	$ 1,806,129	$ 788,077	$(2,027,890)	$ 2,110,143
Current liabilities:						
Accounts payable	$ 5,588	$ 1	$ 76,910	$ 97,766	$ (7,899)	$ 172,366
Intercompany payables	33,973	2,279	20,704	104,658	(161,614)	--
Income taxes	4,679	--	2,928	(7,607)	--	--
Accrued liabilities	13,443	111	120,729	110,202	(932)	243,553
Long-term debt due within one year	18,000	--	90	8	--	18,098
Total current liabilities	75,683	2,391	221,361	305,027	(170,445)	434,017

Long-term debt due after one year	1,018,063	92,958	2	85	--	1,111,108
Intercompany payables	131	--	468,840	154,873	(623,844)	--
Post-retirement benefits and deferred items	50,062	--	166,187	42,926	932	260,107
Shareholders' equity:						
Serial preferred stock, $1.00 par value	--	--	--	--	--	--
Common shares, $1.25 par value	51,856	--	2	197,582	(197,584)	51,856
Capital in excess of par value	65,785	--	676,035	89,489	(765,524)	65,785
Retained earnings	357,495	(343)	285,998	138,332	(423,987)	357,495
	475,136	(343)	962,035	425,403	(1,387,095)	475,136
Treasury stock at cost	(92,545)	--	(613)	2,246	(1,633)	(92,545)
Accumulated other comprehensive (loss) income	(84,224)	(29)	(11,683)	(142,483)	154,195	(84,224)
Deferred compensation obligation	6,544	--	--	--	--	6,544
Total shareholders' equity	304,911	(372)	949,739	285,166	(1,234,533)	304,911
Total liabilities and shareholders' equity	$ 1,448,850	$ 94,977	$ 1,806,129	$ 788,077	$(2,027,890)	$ 2,110,143

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS -- OPERATING ACTIVITIES:						
Net (loss) earnings	$ (8,540)	$ (227)	$ (14,722)	$ 8,426	$ 6,523	$ (8,540)
Adjustments to reconcile net earnings to cash provided (used) by operating activities:						
Depreciation	7	--	7,432	5,409	--	12,848
Amortization	--	--	5,180	871	--	6,051
Net (gain) loss on sale of fixed assets	--	--	54	(278)	--	(224)
Change in operating assets and liabilities:						
Accounts receivable	(212)	--	9,349	16,526	--	25,663
Inventories	(5,758)	--	440	(10,720)	--	(16,038)
Intercompany receivable and payable	(28,287)	25	296,036	21,498	(289,272)	--
Prepaid expenses	876	--	1,530	566	--	2,972
Other assets	(143)	123	2,797	(9,517)	--	(6,740)
Accounts payable	4,284	--	15,603	(24,457)	(7,730)	(12,300)
Accrued liabilities	(6,921)	70	(12,683)	(40,583)	--	(60,117)
Income taxes	--	--	--	(374)	--	(374)
Post-retirement benefits and deferred items	(65)	--	(226)	(6,547)	--	(6,838)
Net deferred taxes	(61)	--	(4,528)	5,739	--	1,150
Net cash (used) provided by operating activities	(44,820)	(9)	306,262	(33,441)	(290,479)	(62,487)
CASH FLOWS -- INVESTING ACTIVITIES:						
Capital expenditures, net of disposals	(306)	--	(2,084)	(1,124)	--	(3,514)
Net cash flows used by investing activities	(306)	--	(2,084)	(1,124)	--	(3,514)
CASH FLOWS -- FINANCING ACTIVITIES:						
Payments on long-term debt	(5,263)	--	--	--	--	(5,263)
Proceeds from long-term debt	50,000	--	--	--	--	50,000
Other activity	389	9	(304,178)	22,382	281,787	389
Net cash flows provided (used) by financing activities	45,126	9	(304,178)	22,382	281,787	45,126
Effect of exchange rate changes	--	--	--	(2,845)	--	(2,845)
Net change in cash and cash equivalents	--	--	--	(15,028)	(8,692)	(23,720)
Cash and cash equivalents at beginning of year	--	--	--	50,239	(7,898)	42,341
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 35,211	$ (16,590)	$ 18,621

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2000

	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS -- OPERATING ACTIVITIES:					
Net earnings	$ 11,882	$ 4,859	$ 5,953	$(10,812)	$ 11,882
Adjustments to reconcile net earnings to cash provided (used) by operating activities:					
Depreciation	1,547	4,500	1,994	--	8,041
Amortization	109	1,907	558	--	2,574
Net (gain) loss on sale of fixed assets	--	8	(7)	--	1
Change in operating assets and liabilities, net of effects of acquisitions and dispositions:					
Accounts receivable	27	2,807	5,121	--	7,955
Inventories	5,969	(18,406)	(3,424)	--	(15,861)
Intercompany receivable and payable	7,696	(4,814)	(2,882)	--	--
Prepaid expenses	(2,787)	1,385	7,611	(4,637)	1,572
Other assets	(3,996)	(4,999)	6,079	--	(2,916)
Accounts payable	(5,376)	4,035	137	(1,331)	(2,535)
Accrued liabilities	17,843	(29,178)	(10,233)	--	(21,568)
Income taxes	(3,597)	136	(746)	1,219	(2,988)
Post-retirement benefits and deferred items	(978)	2,830	(3,420)	--	(1,568)
Net deferred taxes	--	(1,463)	2,698	--	1,235
Net cash provided (used) by operating activities	28,339	(36,393)	9,439	(15,561)	(14,176)
CASH FLOWS -- INVESTING ACTIVITIES:					
Capital expenditures, net of disposals	(979)	(2,728)	(687)	--	(4,394)
Payments for acquisitions, net of cash acquired and dispositions	(22,172)	--	--	--	(22,172)
Net cash flows used in investing activities	(23,151)	(2,728)	(687)	--	(26,566)
CASH FLOWS -- FINANCING ACTIVITIES:					
Net repayments under lines of credit	(769)	--	(62)	--	(831)
Payments on long-term debt	--	--	(1,062)	--	(1,062)
Proceeds from long-term debt	477	35,452	869	--	36,798
Other stock activity	168	--	--	--	168
Other activity	(5,064)	2,780	(8,137)	10,421	--
Net cash flows (used) provided by financing activities	(5,188)	38,232	(8,392)	10,421	35,073
Effect of exchange rate changes on cash	--	--	(859)	--	(859)
Net change in cash and cash equivalents	--	(889)	(499)	(5,140)	(6,528)
Cash and cash equivalents at beginning of year	--	889	29,966	(392)	30,463
Cash and cash equivalents at end of period	$ --	$ --	$ 29,467	$ (5,532)	$ 23,935

8. SEGMENT INFORMATION

The Company has three divisions, each of which constitutes a business segment. Each division manufactures different products and is defined by the type of products and services provided. Each division has a President, who reports directly to the Chief Executive Officer, and a Division Controller. For decision-making purposes, the Chief Executive Officer and other members of upper management use financial information generated and reported at the division level. The Company also has a corporate headquarters that does not constitute a separate division or business segment.

Amounts classified as All Other include Corporate Headquarters costs and other minor entities that are not considered separate segments. The results for IDP are included in the Flowserve Pump Division and a portion of its service business in Flow Solutions Division from the date of acquisition. The Company evaluates segment performance and allocates resources based on profit or loss excluding integration expense, interest expense, other income or expense and income taxes. Intersegment sales and transfers are recorded at cost plus a profit margin. Minor reclassifications have been made to certain previously reported information to conform to the current business configuration.

THREE MONTHS ENDED MARCH 31, 2001	FLOWSERVE PUMP	FLOW SOLUTIONS	FLOW CONTROL	ALL OTHER	CONSOLIDATED TOTAL
SALES TO EXTERNAL CUSTOMERS	$ 223,497	$ 151,881	$ 67,651	$ 1,006	$ 444,035
INTERSEGMENT SALES	1,201	5,058	1,721	(7,980)	--
SEGMENT OPERATING INCOME (BEFORE INTEGRATION EXPENSE)	18,116	18,051	8,385	(7,083)	37,469
IDENTIFIABLE ASSETS	$1,662,265	$ 440,113	$ 196,686	$ (261,043)	$2,038,021

Three months ended March 31, 2000	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 72,588	$ 145,922	$ 65,261	$ 1,538	$ 285,309
Intersegment sales	845	2,958	2,508	(6,311)	--
Segment operating income	3,932	16,651	7,775	(6,912)	21,446
Identifiable assets	$ 223,655	$ 434,173	$ 210,303	$ 96,882	$ 965,013

Reconciliation of the total segment operating income before integration expense to consolidated earnings before income taxes follows:

	Three Months Ended March 31, 2001	2000
Total segment operating income (before integration expense)	$ 44,552	$ 28,358
Corporate expenses and other	7,083	6,912
Integration expense	19,139	--
Net interest expense	31,810	6,206
Other income	(135)	(2,900)
Net (loss) earnings before income taxes	$(13,345)	$ 18,140

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS -- THREE MONTHS ENDED MARCH 31, 2001

In general, results for the first quarter of 2001 were higher than the corresponding period in the previous year due to the Company's acquisition of Ingersoll-Dresser Pump Company (IDP), on August 8, 2000. This acquisition is discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis.

Sales increased 55.6% to $444.0 million for the three months ended March 31, 2001, compared with $285.3 million for the same period in 2000. Pro forma sales in the first quarter of 2000, including the results of IDP, were $460.2 million. Sales for the quarter compared to last year on a pro forma basis were adversely affected by an unfavorable currency translation of approximately 2%, temporary inefficiencies resulting from the integration of IDP, and the divestiture of product lines in 2000 to comply with the Department of Justice consent decree to acquire IDP. The change in sales is discussed further in the following section on Business Segments. Net sales to international customers, including export sales from the U.S., were consistent with the first quarter of 2000 at 45%.

Bookings, or incoming orders for which there are purchase commitments, were $496.3 million, 59.7% higher than the first quarter of 2000 when bookings were $310.7 million. Pro forma bookings in the first quarter of 2000 were $539.8 million. The decline in bookings on a pro forma basis was primarily due to a large project recorded by IDP in the prior year. Bookings were also adversely affected by an unfavorable currency translation of approximately 3%.

BUSINESS SEGMENTS

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

Sales and operating income before integration expense for each of the three business segments are:

	FLOWSERVE PUMP DIVISION	
	Three Months Ended March 31,	
(In millions of dollars)	2001	2000
Sales	$ 224.7	$ 73.4
Operating income	18.1	3.9

The sales increase in 2001 was due to the acquisition of IDP. On a pro forma basis, revenues were $233.4 million in the first quarter of 2000. The sales decrease on a pro forma basis resulted from temporary inefficiencies associated with the integration of IDP and unfavorable currency translation which reduced sales by about 3% quarter-over-quarter.

Operating income before integration expense, increased 364% from prior period of $3.9 million and 484% from pro forma results of $3.1 million. Operating income as a percentage of sales increased to approximately 8.1% in 2001 from about 5.3% in the prior-year period and 1.3% in 2000 on a pro forma basis. The increase primarily resulted from the synergy savings realized from the IDP integration activities.

	FLOW SOLUTIONS DIVISION	
	Three Months Ended March 31,	
(In millions of dollars)	2001	2000
Sales	$ 156.9	$ 148.9
Operating income	18.1	16.7

Sales were higher than the prior-year period primarily due to the inclusion of a portion of IDP's service repair business in 2001. Pro forma sales were $163.8 million in the first quarter of 2000. The decrease from pro forma sales was due to temporary integration dissynergies and an unfavorable currency translation which reduced sales by about 2%.

Operating income before integration expense, as a percentage of sales, increased to 11.5% from 11.2% in 2000 on an as reported basis and 11.3% on a pro forma basis. Current quarter results were adversely impacted by inefficiencies resulting from the integration of IDP's service business and period costs related to the previously announced restructure of the Company's seal business.

	FLOW CONTROL DIVISION	
	Three Months Ended March 31,	
(In millions of dollars)	2001	2000
Sales	$ 69.4	$ 67.8
Operating income	8.4	7.8

Sales increased slightly over the prior year despite an unfavorable currency translation which reduced sales by about 2%.

Operating income as a percentage of sales was 12.1% in the first quarter of 2001, compared with 11.5% in 2000. The improved operating margin in 2001 was primarily due to efficiency improvements.

CONSOLIDATED RESULTS

The gross profit margin was 31.0% for the three months ended March 31, 2001, compared with 34.8% for the same period in 2000. The decrease was primarily due to the acquisition of IDP as IDP's margins historically are lower than the balance of the Company. The Company's margin increased 130 basis points when compared to the first quarter 2000 pro forma margin of 29.7% This improvement primarily resulted from manufacturing integration synergies and productivity improvements.

Selling, general and administrative expense as a percentage of net sales was 22.5% for the quarter ended March 31, 2001, compared with 27.3% in the prior-year period and 24.9% in 2000 on a pro forma basis. The decrease from the prior year percentages was due to IDP integration savings and productivity improvements.

Operating income before integration expense of $37.5 million increased 75% over reported and 66% over pro forma quarterly comparisons. The improvement reflects synergy benefits related to the acquisition and integration of IDP and productivity improvements.

Net interest expense during the first quarter of 2001 was $31.8 million, compared with $6.2 million in the same period in 2000 due to the increased borrowing levels required to acquire IDP and the amortization of deferred financing fees related to the new debt.

Other income was $0.1 million in the first quarter of 2001 compared with $2.9 million of income in the same period in 2000. The 2000 amounts resulted primarily from the quarterly mark-to-market adjustment required at the time under the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Agreements Where Amounts Earned are Held in a Rabbi Trust and Invested". Due to an amendment the Company made in the deferred compensation plans during the fourth quarter of 2000, this adjustment is no longer applicable.

The Company's effective tax rate for the first quarter of 2001 was 36.0% compared with 34.5% in the first quarter of 2000. The increase was due to the acquisition.

Earnings before integration expense for the first quarter of 2001 were $3.7 million or $0.10 per share compared to a loss of $4.0 million or $0.11 per share in the first quarter of 2000 on a

pro forma basis. Integration expense of $19.1 million in 2001 related to period costs associated with the integration of the IDP acquisition. Net earnings for the first quarter of 2001 were a loss of $8.5 million or $0.22 per share, compared to income of $11.9 million or $0.31 per share for the same period in 2000.

RESTRUCTURING

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, are expected to result in the net reduction of approximately 1,200 positions and are expected to result in at least $75 million in annual synergy savings upon estimated completion before the end of 2001. The Company expects the cost of achieving these synergies will be no more than $150 million. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel. The Company currently estimates that the costs associated with the restructuring portion of the program will be approximately $68 million. The Company had originally estimated these costs to be approximately $61 million. The increase from the original estimate is primarily due to updated actuarial information for post-retirement and pension expense relating to a plant closure. This increase was offset by a non-cash reclassification from the restructuring accrual to post-retirement benefits and pension liabilities which resulted in a net reduction to the accrual of $8.8 million during the fourth quarter of 2000.

Approximately $44 million of the total cost relates to the IDP operations acquired and $28 million has been capitalized in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $24 million relates to the Flowserve operations and was recorded as restructuring expense in 2000. The balance of the $150 million in costs is recorded as integration expense as incurred.

During the first three months of 2001, the Company incurred $19.1 million in integration costs in conjunction with this program.

As of March 31, 2001, the program had resulted in a net reduction of 1,139 employees. Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	$ 18,486	$ 12,398	$ 30,884
CASH EXPENDITURES	(5,729)	(4,029)	(9,758)
BALANCE AT MARCH 31, 2001	$ 12,757	$ 8,369	$ 21,126

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a reduction in workforce at those other locations.

The 1999 restructuring program is expected to result in a net reduction of approximately 275 employees at a cost of $12.9 million upon estimated completion during the second quarter of 2001. In addition, exit costs associated with the facilities closings were $3.0 million. As of March 31, 2001, the program has resulted in a net reduction of 268 employees.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for the first three months of 2001 were significantly below the same period in 2000. The decrease in cash flows in 2001 was primarily due to the payment of accrued interest and payments relating to the IDP restructuring and integration programs.

Capital expenditures, net of disposals, were $3.5 million during the first three months of 2001, compared with $4.4 million in the first three months of 2000. Capital expenditures were funded primarily by operating cash flows.

ACQUISITION

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

FINANCING

During the third quarter of 2000, in connection with the acquisition of IDP, the Company entered into a Credit Agreement for senior secured credit facilities which included a $275 million term loan due June 2006, a $475 million term loan due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The term loans bear floating interest rates based on LIBOR plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. At March 31, 2001, the interest rate(s) on the term loans were 8.00% and 7.6875% relating to the Tranche A loan and 8.75% and 8.4375% relating to the Tranche B loan. The term loans require scheduled principal payments beginning June 30, 2001. The senior secured credit facilities are secured by the domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. As of March 31, 2001, $50.0 million of the revolving credit was drawn and $744.7 million of the term loans were outstanding.

The scheduled principal payments of the term loans outstanding at March 31, 2001 are summarized as follows: $17.8 million in 2001, $44.5 million in 2002, $59.4 million in 2003, $63.3 million in 2004, $67.3 million in 2005, $105.9 million in 2006, $257.4 million in 2007 and $129.1 million in 2008. Beginning in 2002, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Agreement, to reduce the outstanding principal of the term loans.

The revolving credit facility allows the Company to issue up to $200 million in letters of credit. As of March 31, 2001, $31.9 million of letters of credit had been issued under the facility. This, coupled with the $50.0 million in borrowings under the facility, left the Company with $218.1 million remaining in unused borrowing capacity under the revolving credit facility.

The Company also issued 10 year, senior subordinated notes on August 8, 2000 in a U.S. dollar tranche and a Euro tranche, that are non-callable for 5 years. Proceeds of $285.9 million from the dollar tranche, and EUR 98.6 million from the Euro tranche equivalent to $89.2 million, were also used in completing the IDP acquisition. The notes, issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal payment prior to maturity in August 2010. At August 2005, the notes become callable at a redemption price of 106.125%. At August of each subsequent year, the notes are callable at

104.083%, 102.042% and 100.000% for 2006, 2007 and 2008 and thereafter, respectively. Interest on the notes is payable semi-annually, with the first payment occurring in February 2001.

The provisions of the Credit Agreement require the Company to meet or exceed specified financial covenants that are defined in the Credit Agreement. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the Credit Agreement and the senior subordinated notes require limitations or restrictions relating to new indebtedness, prepayment of subordinated debt, liens, sale and leaseback transactions, disposition of assets, payment of dividends or other distributions, and capital expenditures, among other things.

The Company believes that internally generated funds, including synergies from the IDP acquisition, will be adequate to service the debt.

At March 31, 2001, total net debt was 81.9% of the Company's capital structure, compared with 78.1% at December 31, 2000. The interest coverage ratio of the Company's indebtedness was 1.5 times interest at March 31, 2001, compared with 2.0 times interest at December 31, 2000.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Report on Form 10-Q and other written reports and oral statements made from time to time by the Company contain various forward-looking statements and include assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; the Company's ability to integrate past and future acquisitions into its management and operations; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic turmoil in areas outside the United States; continued economic growth within the United States; unanticipated difficulties or costs associated with the implementation of systems, including software; and the recognition of significant expenses associated with adjustments to realign the combined Company's facilities and other capabilities with its strategic and business conditions, including, without limitation, expenses incurred in restructuring the Company's operations to incorporate IDP facilities, the Company's ability to meet the financial covenants and other requirements of its financing agreements. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

I
TEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

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

The Company's earnings are affected by changes in short-term interest rates as a result of borrowings under its senior secured credit facilities which bear interest based on floating rates. At March 31, 2001, given the effect of interest rate swaps held by the Company, the Company had approximately $594.7 million of variable-rate debt obligations outstanding with a weighted average interest rate of 8.452%. A hypothetical increase of 100-basis points in the interest rate for these borrowings, assuming debt levels at March 31, 2001, would change interest expense by approximately $1.5 million for the three months ended March 31, 2001.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. Based on the sensitivity analysis at March 31, 2001, a 10% adverse change in the foreign currency exchange rates would impact the Company's results of operation by $0.3 million. The primary currencies to which the Company has exposure are the Euro currencies, the British pound, the Brazilian real, the Canadian dollar, the Mexican peso, the Japanese yen, the Singapore dollar, and the Australian dollar.

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

The Company reclassified the transition adjustment relating to foreign currency forward contracts to earnings during the first quarter of 2001. At March 31, 2001, the fair-value of the hedging instruments is a liability of $7.5 million and included in other comprehensive income. The Company expects that within the next twelve months it will reclassify as expense $3.6 million of this amount recorded in accumulated other comprehensive income.

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. The maximum length of the contracts currently in place as of March 31, 2001 is approximately 2 years.

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

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. As of March 31, 2001, the Company had $150 million of notional amount in

outstanding interest rate swaps with third parties. The maximum length of the interest rate swaps currently in place as of March 31, 2001 is approximately 6 years.

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

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

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

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

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements of the Securities and 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
(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: May 9, 2001