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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

Commission file number 1-13179

FLOWSERVE CORPORATION

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of organization)	**31-0267900** (I.R.S. Employer Incorporation or Identification No.)
222 W. Las Colinas Boulevard **Suite 1500, Irving, Texas** (Address of principal executive offices)	**75039** (Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer. Yes ☒ No ☐

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 28, 2002 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $1,645,010,809.

The number of shares outstanding of the registrant's common stock as of February 14, 2003 was 55,229,599 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement dated March 14, 2003 are incorporated by reference into Part III of this Form 10-K.

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2002 are incorporated by reference into Parts I, II, III and IV of this Form 10-K.

PART I

ITEM 1. BUSINESS

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

We believe that we are the world's largest manufacturer and aftermarket service provider of comprehensive flow control systems. Our Company develops and manufactures precision-engineered flow control equipment for critical service applications where high reliability is required. The flow control system components we produce include pumps, valves and mechanical seals. The Company's products and services are used in several industries, including, but not limited to, the petroleum, chemical, power generation, water treatment and general industrial industries.

Flowserve conducts its operations through three business segments:

- Flowserve Pump Division (FPD) for engineered pumps, industrial pumps and related services;
- Flow Solutions Division (FSD) for precision mechanical seals and related services; and
- Flow Control Division (FCD) for industrial valves, manual valves, control valves, nuclear valves, valve actuators and controls and related services.

Through each of our segments, we also provide aftermarket replacement parts.

Effective July 1, 2002, the Company realigned its operating segments. Under the new organization, the Flow Solutions Division includes the Company's seal operations, while the Company's pump service and valve service businesses are included as appropriate in the Flowserve Pump Division and Flow Control Division, respectively. The segment information reported herein reflects the new organizational structure for all periods presented.

FLOWSERVE PUMP DIVISION

Through FPD, we design, manufacture, distribute and service engineered and industrial pumps and pump systems, replacement parts and related equipment principally to industrial markets. FPD's products and services are primarily used by companies that operate in the petroleum, chemical processing, power generating, water treatment and general industrial markets. Our pump systems and components are manufactured at 30 plants in the United States and throughout the world. We also manufacture a small portion of our pumps through several foreign joint ventures. We market our pump products, which are primarily sold to end users and engineering and construction companies, through our worldwide sales force, regional service and repair centers, independent distributors and sales representatives.

PRODUCTS

We manufacture more than 100 different pump models ranging from simple fractional horsepower industrial pumps to high horsepower engineered pumps. Our pumps are manufactured in a wide range of metal alloys and with a variety of configurations including pumps that utilize mechanical seals (sealed pumps) and pumps that do not utilize mechanical seals (Magnetic-Drive pumps).

SERVICES

We provide engineered aftermarket services through our global network of approximately 32 service and quick response centers in 17 countries. Our service personnel provide a comprehensive set of equipment maintenance services for flow management control systems, including repair, advanced diagnostics, installation, commissioning, re-rate and retrofit programs, machining and full

service solution offerings. A large portion of our service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

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

PRODUCT TYPES

<u>Centrifugal Pumps</u>

- Chemical Process ANSI and ISO

- Petroleum Process API 610
- Horizontal Between Bearing Single-stage
- Horizontal Between Bearing Multi-stage
- Vertical
- Submersible Motor
- Specialty
- Nuclear

Positive Displacement Pumps

- Reciprocating
- Gear
- Twin Screw

BRAND NAMES

- ACEC
- Aldrich
- Byron Jackson
- Cameron
- Durco
- Duriron
- Flowserve
- IDP
- Pacific
- Pleuger
- Scienco
- Sier-Bath
- Worthington-Simpson
- United Centrifugal
- Western Land Roller
- Wilson-Snyder
- Worthington

NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development have consistently led to producing more reliable and higher efficiency pumps. The majority of our new products and enhancements are driven by our customers' needs to achieve higher production rates at lower costs. As a result, we continually work with our customers to develop better pump solutions to improve the availability of their pump systems.

CUSTOMERS

FPD sells its products to more than 500 customers including leading engineering and construction firms, original equipment manufacturers (OEM), distributors and end users. Our sales mix of original equipment products and aftermarket replacement parts diversifies our business and mitigates somewhat the impact of an economic downturn on our business.

COMPETITION

The industry is highly fragmented with more than 50 competitors, however, FPD primarily competes against a relatively limited number of large companies operating on a global scale. Competition is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history and reputation for quality.

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

BACKLOG

FPD's backlog of orders at December 31, 2002 was $495.1 million, compared with $551.4 million at December 31, 2001. We anticipate shipment of a high percentage of the current backlog by December 31, 2003.

FLOW SOLUTIONS DIVISION

Through FSD, we design, manufacture and distribute mechanical seals, sealing systems and parts, and provide related services principally to industrial markets. Flow control products require mechanical seals to be replaced throughout the products' useful lives. The replacement of mechanical seals is an integral part of aftermarket services. Our mechanical seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, primarily in the petroleum, chemical processing, power generation, water treatment industries and in the general industrial end-markets. We manufacture mechanical seals through 5 plants in the United States and throughout the world. Through FSD's global network of over 50 service and quick response centers, we provide service, repair and diagnostic services for maintaining components of flow control systems.

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

PRODUCTS

FSD designs, manufactures and distributes approximately 180 different models of mechanical seals and sealing systems. We believe our ability to turn around engineered new seal product orders within 24 hours from the customer's request, through design, engineering, manufacturing, testing and delivery, provides us with a competitive advantage. Our mechanical seals are critical to the reliable operation of pumps, compressors and mixers for prevention of leakage and emissions of hazardous substances and the reduction of shaft wear caused by non-mechanical seals. We also manufacture a gas-lubricated mechanical seal that is used in high-speed compressors for gas transmission and in the oil and gas production markets. We continually update our mechanical seals and sealing systems with new technologies.

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

SERVICES

We provide aftermarket services through our network of approximately 50 service centers and quick response centers located throughout the world. FSD also provides asset management services and condition data point monitoring for rotating equipment. A large portion of our service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

PRODUCT TYPES

- Cartridge
- Dry-Running
- Metal Bellow
- Elastomeric
- Split
- Gas Barrier
- Service and Repair
- Couplings
- Monitoring and Diagnostics

BRAND NAMES

- BW Seals
- Durametallic
- Five Star Seal
- Flowserve
- Flowstar
- GASPAC
- Pacific Wietz
- Pac-Seal

NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development are focused on developing products that last longer and work more efficiently. Approximately 30% of our original equipment mechanical seal sales for 2002 were sales of products developed within the past 5 years. Our latest mechanical seal and seal system innovations include: (1) a sterilizable mixer seal; (2) a high pressure compressor barrier seal; (3) a new web-based asset management tool; (4) an equipment data point monitoring package; (5) as well as numerous product upgrades and improvements. FSD also markets "Flowstar.Net", an interactive tool FSD uses to actively monitor and manage information relative to equipment performance, which enhances customers' ability to make informed decisions and respond quickly to plant production problems, extend the life of their production equipment and, therefore, lower maintenance expenses.

CUSTOMERS

Our mechanical seal products are sold to OEMs for incorporation into pumps, compressors, mixers or other rotating equipment requiring mechanical seals, and directly to end users. FSD's mechanical seal sales are diversified among several industries, including petroleum, chemical, power generation, water treatment and general industries.

We have established alliances with over 200 customers. These alliances provide significant benefits to us, as well as to our customers, by creating a more efficient supply chain through the improvement of equipment reliability, reduction of procurement and inventory costs and increased communication with our customers. Our alliances help us provide products and services to our customers in a timely and cost-effective manner and they are an effective platform for the quick introduction of new products and services, such as condition data point monitoring, to the marketplace.

COMPETITION

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

BACKLOG

FSD's backlog of orders at December 31, 2002 was $34.4 million, compared with $38.2 million at December 31, 2001. We believe that virtually all of the current backlog will be shipped by December 31, 2003.

FLOW CONTROL DIVISION

Through FCD, we design, manufacture and distribute manual valves, control valves, nuclear valves, actuators and related equipment and provide a variety of flow control-related services. FCD's valve products are an integral part of a flow control system and are used to control the flow of liquids and gases. Substantially all of FCD's valves are specialized and engineered to perform specific functions within a flow control system.

FCD's products are primarily used by companies that operate in the petroleum, chemical, power generation and general industries. We manufacture valves and actuators through 24 plants in the United States and throughout the world. We also manufacture a small portion of our valves through foreign joint ventures. Manual valve products and valve actuators are distributed through our sales force personnel and a network of distributors. Automatic control valves are marketed through sales engineers and service and repair centers or on a commission basis through sales representatives in our principal markets.

In May 2002, the Company acquired Invensys plc's flow control division ("IFC"). See Note 3 to the consolidated financial statements in the 2002 Annual Report to Shareholders, which is incorporated herein by reference. This acquisition provided us with an expanded offering of valve types and technologies to better serve our customer's flow control needs.

PRODUCTS

Our valve, actuator and automated valve accessory offering represents one of the most comprehensive product portfolios in the industry. Our valves are used in a wide variety of applications from general service to highly corrosive environments, as well as in environments experiencing extreme temperatures and/or pressures and applications requiring zero leakage. FCD sells valves to the chemical, power, petroleum and other industries. In addition to traditional valves, FCD also produces valves that incorporate "Smart" valve technologies, which integrate high technology sensors, microprocessor controls and digital positioners into a high performance control valve, permitting real time system analysis, system warnings and remote services. We were the first company to introduce "Smart" valve technologies in response to demands for increased plant automation, more efficient process control and digital communications. FCD offers a growing line of digital products, and it will continue to incorporate digital technologies into its existing products to upgrade performance.

SERVICES

We provide aftermarket services through our network of approximately 50 service and quick response centers located throughout the world. Our service personnel provide a comprehensive set of equipment maintenance services for flow control systems, including repair, advanced diagnostics, installation, commissioning, retrofit programs and full machining capabilities. A large portion of our service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

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

PRODUCT TYPES

- Actuator and Accessories
- Control Valves
- Ball Valves
- Lubricated Plug Valves
- Pneumatic, Electro Pneumatic and Digital Valves
- Digital Communications
- Manual Quarter-Turn Valves
- Valve Automation Systems
- Valve/Actuator Software
- Nuclear Valves
- Quarter-Turn Actuators

BRAND NAMES

- Accord
- Anchor/Darling
- Argus
- Atomac
- Automax
- Battig
- Durco
- Edward
- NAVAL
- Noble Alloy
- Norbro
- Nordstrom Audco
- PMV
- P+W
- Serck Audco
- Sereg

- Kammer
- Limitorque
- McCANNA/MARPAC
- NAF
- Schmidt Armaturen
- Valtek
- Vogt
- Worcester Controls

NEW PRODUCT DEVELOPMENTS

Our investments in new product research and development focus on technological leadership and differentiating our product offering. When appropriate, we invest in the redesign of existing products in an effort to improve their performance and continually meet customer needs.

CUSTOMERS

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

COMPETITION

Like the pump market, the valve market is highly fragmented and has undergone a significant amount of consolidation in recent years. Within the valve industry, we believe that the top ten manufacturers, on a global basis, maintain less than 30% market share.

BACKLOG

FCD's backlog of orders at December 31, 2002 was $210.8 million, compared with $77.9 million at December 31, 2001. This increase reflects the IFC acquisition. We anticipate shipping 85% to 90% of the current backlog by December 31, 2003.

GENERAL BUSINESS

COMPETITION

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

In the petroleum industry, the competitors for aftermarket services tend to be the customers utilizing their own in-house capabilities. In other industries, except the nuclear power industry, the

competitors for aftermarket services tend to be low cost replicators of spare parts and local independent repair shops for the Company's products. The Company has certain competitive advantages in the nuclear power industry due to its "N Stamp", a prerequisite to serve customers in that industry, and due to the Company's considerable base of proprietary knowledge.

Generally, our customers are attempting to reduce the number of vendors from which they purchase, thereby reducing the size and diversity of their inventory. Although vendor reduction programs could adversely affect the Company's business, the Company has been successful in entering into alliance arrangements with a number of customers globally to leverage competitive advantages for the Company.

RESEARCH AND DEVELOPMENT

The Company conducts research and development at its own facilities in various locations. In 2002, 2001 and 2000, the Company spent approximately $24.4 million, $23.4 million, and $24.8 million, respectively, on Company-sponsored research and development initiatives, primarily developing new products and extending its existing product line.

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

CUSTOMERS

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 2002 net sales.

RISKS OF INTERNATIONAL BUSINESS

Sales to foreign destinations, including U.S. export sales, were 56% of our sales in 2002, and included business activity in the Middle East. Our activities thus are subject to the customary risks of operating in an international environment, such as military conflicts, unstable political situations, local laws, the potential imposition of trade restrictions or tariff increases and the relationship of the U.S. dollar to other currencies. The impact of these conditions is mitigated somewhat by the strength and diversity of the Company's product lines and geographic coverage. To minimize the impact of foreign exchange rate movements on its operating results, the Company regularly enters into forward exchange contracts to hedge specific foreign currency denominated transactions. See Note 8 to consolidated financial statements in the 2002 Annual Report to Shareholders, which is incorporated by reference in this Form 10-K.

INTELLECTUAL PROPERTY

The Company owns a number of trademarks and patents relating to the name and design of its products. The Company considers its trademarks and patents to be an important aspect of its business. In addition, the Company's pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of its products and their use, is considered particularly important and valuable. Accordingly, the Company attempts to proactively protect such proprietary information. The Company, in general, owns the rights to the products which it manufactures and sells and does not depend, in any material way, on any license or franchise to operate.

RAW MATERIALS

The principal raw materials we use in manufacturing our products are readily available. The main raw materials we use include bar stock and structural steel, castings, fasteners, gaskets, motors, silicon and carbon faces and fluoropolymer components. While substantially all raw materials are purchased from outside sources, we have been able to obtain an adequate supply of raw materials, and do not anticipate any shortages of such materials. We intend to expand worldwide sourcing to capitalize on low cost sources of purchased goods.

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

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

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

EMPLOYEES AND LABOR RELATIONS

We employ approximately 14,000 persons of whom approximately one-half work in the United States. Our hourly employees at our pump manufacturing plants located in Vernon, California and Phillipsburg, New Jersey, plus those at our valve manufacturing plants in Williamsport, Pennsylvania and Lynchburg, Virginia and at our foundries in Dayton and Springboro, Ohio are represented by unions. Additionally, some employees at select facilities in the following countries are unionized: Argentina, Austria, Belgium, Brazil, Canada, France, Germany, Italy, Mexico, The Netherlands, Spain and the United Kingdom. We believe employee relations throughout our operations are generally satisfactory, including those represented by unions.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

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

EXPORTS

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

The Company's export sales from the United States to foreign unaffiliated customers were $192.4 million in 2002, $167.3 million in 2001 and $148.1 million in 2000.

AVAILABILITY OF FORMS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Shareholders of the Company may obtain, without charge, copies of the following documents as filed with the Securities and Exchange Commission: our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, changes in beneficial ownership reports on Form 4, proxy statements and any amendments thereto, as soon as reasonably practical after such material is filed with or furnished to the Securities and Exchange Commission. Copies may be obtained by accessing the Company's website at www.flowserve.com or by providing a written request for such copies or additional information regarding the Company's operating or financial performance to Michael E. Conley, Director, Investor Relations, Flowserve Corporation, 222 W. Las Colinas Blvd., Suite 1500, Irving, Texas 75039-5421.

ITEM 2. PROPERTIES

The Company's corporate headquarters is a leased facility in Irving, Texas encompassing approximately 59,500 square feet.

Information on the principal manufacturing facilities, by segment after giving effect to the IFC Acquisition and certain facility closings completed in 2002, is as follows:

	No. of Plants	Approx. Sq. Footage
PUMP		
Domestic:	8	1,521,000
International:	15	2,074,000
FLOW SOLUTIONS		
Domestic:	2	172,000
International:	4	184,000
FLOW CONTROL		
Domestic:	8	1,100,000
International:	17	1,184,000

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

On the average, the Company utilizes approximately 65% to 80% of its manufacturing capacity, although there is a variation in usage rate among the facilities. The Company could, in general, increase its capacity through the purchase of new or additional manufacturing equipment without obtaining additional facilities.

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

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business, none of which we believe to be material to the Company's financial condition. For further information about such litigation, see Note 12 of the Consolidated Financial Statements provided as part of Item 3 of this Form 10-K and incorporated herein by reference.

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

None.

PART II

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

The common stock of the Company (FLS) is traded on the New York Stock Exchange. On February 14, 2003, the Company's records showed approximately 1,714 shareholders of record. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 12,450 beneficial owners of its common stock. The Company did not pay a dividend on its shares of common stock in 2002 and has no current plans to begin paying dividends.

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

	2002	2001
First Quarter	$32.43/$22.65	$24.35/$19.22
Second Quarter	$35.09/$28.45	$33.30/$20.76
Third Quarter	$29.70/$ 7.90	$31.15/$18.90
Fourth Quarter	$15.60/$ 7.58	$27.02/$18.70

During 2002, 2001 and 2000, the Company issued 31,100, 27,700 and 26,645 shares of restricted common stock, respectively, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of directors and certain officers and employees of the Company subject to restrictions on transfer.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 2002, beginning on page 79 of the 2002 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Management's Discussion and Analysis, beginning on page 27 of the 2002 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about market risk beginning on page 39 of the Company's 2002 Annual Report to Shareholders, under the heading "Market Risks Associated with Financial Instruments", is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and accompanying notes appearing on pages 42 through 80 of the 2002 Annual Report to Shareholders, together with the reports thereon of PricewaterhouseCoopers LLP, dated February 3, 2003, appearing on page 26 of the 2002 Annual Report to Shareholders are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CERTAIN OTHER CORPORATE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 17, 2003, (the "2003 Proxy Statement") is incorporated herein by reference. The executive officers and certain other corporate officers of the Company, all positions and offices presently held by each person named, their ages as of February 14, 2003, and their business experience during the last five years are stated below. Executive officers serve at the discretion of the Board of Directors.

Name and Position	Age	Principal Occupation During Past Five Years
C. Scott Greer Chairman, President and Chief Executive Officer	52	President since 1999, Chief Executive Officer and Chairman of the Board since 2000; Chief Operating Officer from July to December 1999; President of UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components, from 1997 to 1999; President and a director of Echlin, Inc., an automotive parts supplier, from 1990 to 1997, and its

		Chief Operating Officer from 1994 to 1997.
Carlos Cardoso Vice President and President Flowserve Pump Division	44	Vice President and President, Pump Division since 2001; Vice President and General Manager of the Engine Systems and Accessories Division of Honeywell International Inc. (formerly Allied Signal, Inc.) from 1999 to 2001; Vice President and General Manager of Marketing, Sales and Services/Aerospace Services of Allied Signal, Inc from 1998 to 1999. Vice President of Operations for Aerospace Equipment Systems, a division of the Allied Signal Aerospace Sector from 1996 to 1998.
David F. Chavenson Vice President and Treasurer	50	Vice President and Treasurer since 2001; Senior Vice President and Chief Financial Officer for Worldwide Flight Services, Inc. from 2000 to 2001; Vice President, Finance and Chief Financial Officer of Rutherford—Moran Oil Corporation from 1996 to 1999.
Mark D. Dailey Vice President, Supply Chain and Continuous Improvement	44	Vice President, Supply Chain and Continuous Improvement, since 1999; Vice President, Supply Chain and other supply chain management positions, from 1992 to 1999 for the North American Power Tools Division of The Black and Decker Company, a manufacturer of power tools, fastening and assembly systems and security hardware and plumbing products.

Thomas E. Ferguson Vice President and President Flow Solutions Division	46	President of Flow Solutions Division since 2002; joined the Company in 1987 and named Vice President and General Manager FSD North America in 1999; Vice President of Marketing and Technology for the Seal Division in 1997 to 1999; numerous marketing, technology and sales positions in both BW/IP Pump and Seal Divisions from 1987 to 1997.
Kathleen A. Giddings Vice President and Controller	40	Vice President and Corporate Controller since 2000; Division Vice President and Controller of the Pump Division from 1997 to 2000; and Corporate Controller from 1993 to 1997.
Renée J. Hornbaker Vice President and Chief Financial Officer	50	Vice President and Chief Financial Officer since 1997; Vice President, Business Development and Chief Information Officer in 1997; Vice President, Finance and Chief Financial Officer of BW/IP, Inc. in 1997; Vice President, Business Development of BW/IP from 1996 to 1997.
John H. Jacko Vice President, Marketing and Customer Management	45	Vice President of Marketing since 2002; Division Vice President of FPD Marketing and Customer Management from 2001-2002; Vice President of Customer & Product Support for the Engines and Systems Business, as well numerous other roles at Honeywell Aerospace from 1999 to 2001; served as Vice President of Sales and Service, Commercial Transport at Allied Signal Aerospace, as well as numerous other roles from 1995 to 1999.
Rory E. MacDowell Vice President and Chief Information Officer	52	Vice President and Chief Information Officer since 1998; Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to 1997.
Cheryl D. McNeal Vice President Human Resources	52	Vice President of Human Resources since 1996; also served as Assistant Vice President of Human Resources and other Human Resources Management positions at NCR from 1978 to 1996.
J.B. Nowlin Vice President of Tax	58	Vice President of Tax since 2000; served as Director Tax for Smurfit-Stone Container Corporation from 1987 to 2000.
George A. Shedlarski Vice President and President Flow Control Division	58	President of Flow Control Division since 1999 and President of Flow Solutions Division from 1999-2002; President, Fluid Sealing Division from 1997 to 1999; President, Service Repair Division in 1997; President, Rotating Equipment Group in 1997; Group Vice President, Industrial Products Group from 1994 to 1997.
Ronald F. Shuff Vice President, Secretary and General Counsel	50	Vice President since 1990 and Secretary and General Counsel since 1988.

The Company's principal executive officer and CEO, principal financial officer and CFO, principal accounting officer and controller, and other senior financial managers performing similar functions have adopted and executed a Financial Management Code of Ethics that specifically relates to their financial reporting duties, an example of which is attached hereto as Exhibit 14.1. The Company

intends to disclose any change in its Financial Management Code of Ethics or the grant of any waiver of any ethics provision in such code to any specified officer or manager via a 8-K report filed with the Securities and Exchange Commission. In addition, any 8-K reports filed in connection herewith shall be posted on the Company's website at www.flowserve.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,957,483	$21.81	509,741
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	2,957,483	$21.81	509,741

The additional information required by this Item 12 is set forth in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is set forth in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

The information required by this Item 14 is set forth on pages 39 and 40, under the caption "Controls and Procedures" in the Company's 2002 Annual Report to Shareholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements listed on the accompanying Index to Financial Statements and Financial Statement Schedule, on page F-1 hereof, are incorporated by reference from the Company's 2002 Annual Report to Shareholders as part of this Form 10-K.

2. Financial Statement Schedule

The required financial statement schedule, together with the report thereon of PricewaterhouseCoopers LLP, dated February 3, 2003, listed in the accompanying Index to Financial Statements and Financial Statement Schedule on page F-1 hereof, is filed as part of this Form 10-K.

3. Exhibits

The exhibits listed on the accompanying Index to Exhibits on pages 15 through 20 are either incorporated by reference or they are attached hereto as part of this Form 10-K.

(b) Reports on Form 8-K

On November 21, 2002, the Company filed a Form 8-K reaffirming its 2002 full year estimated earnings per share. The Company also filed a Form 8-K on December 23, 2002, announcing that it increased the number of directors that would serve on its board of directors from nine (9) to ten (10) and that its board of directors had elected Christopher A. Bartlett to serve as the new director until the next annual shareholders meeting.

(c) See Item 15(a) 3 above.

(d) See Item 15(a) 2 above.

INDEX TO EXHIBITS*

Exhibit No.	Description
2.1	Purchase Agreement by and among Flowserve Corporation, Flowserve RED Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company, dated as of February 9, 2000, was filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.
2.2	Amendment No. 1, dated as of July 14, 2000, to the Purchase Agreement dated as of February 9, 2000, by and among Flowserve Corporation, Flowserve RED Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company, was filed as Exhibit 2.1 to the Company's report on Form 8-K, dated as of July 19, 2000.
2.3	Agreement and Plan of Merger among Flowserve Corporation, Forest Acquisition Sub., Inc. and Innovative Valve Technologies, Inc., dated as of November 18, 1999, was filed as Exhibit 99(c)(1) to the Schedule 14 D-1 Tender Offer Statement and Statement on Schedule 13-D dated as of November 22, 1999.
3.1	1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
3.2	1989 Amendment to Certificate of Incorporation was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
3.3	By-Laws of The Duriron Company, Inc. (as restated) were filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.
3.4	1996 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
3.5	Amendment No. 1 to Restated Bylaws was filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
3.6	April 1997 Certificate of Amendment of Certificate of Incorporation was filed as part of Annex VI to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.
3.7	July 1997 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q, for the Quarter ended June 30, 1997.
4.1	Lease agreement and indenture, dated as of January 1, 1995 and bond purchase agreement dated January 27, 1995, in connection with an 8% Taxable Industrial Development Revenue Bond, City of Albuquerque, New Mexico. (Relates to a class of indebtedness that does not exceed 10% of the total assets of the Company. The Company will furnish a copy of the documents to the Commission upon request.)
4.2	Rights Agreement dated as of August 1, 1986 between the Company and BankOne, N.A., as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificate which was filed as Exhibit 1 to the Company's Registration Statement on Form 8-A on August 13, 1986.
4.3	Amendment dated August 1, 1996, to Rights Agreement was filed as Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

4.4	Amendment No. 2 dated as of June 1, 1998, to the Rights Agreement dated as of August 13, 1986, and amended as of August 1, 1996, was filed as Exhibit 1 to the Company's Form 8-A/A dated June 11, 1998.
4.5	Rate Swap Agreement in the amount of $25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
4.6	Rate Swap Agreement in the amount of $25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
4.7	Indenture dated as of August 8, 2000, between the Company, the guarantors identified therein and The Bank of New York, as Trustee for $290,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2010, was filed as Exhibit 4.7 to the Form S-4 Registration Statement dated as of September 27, 2000.
4.8	Indenture dated as of August 8, 2000, between Flowserve Finance B.V., the guarantors identified therein and The Bank of New York, as Trustee for $100,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2010, was filed as Exhibit 4.8 to the Form S-4 Registration Statement dated as of September 27, 2000.
4.9	Dollar Notes Registration Rights Agreement dated August 3, 2000, among the Company, the Dollar Notes Guarantors, Credit Suisse First Boston, Bank of America Securities Inc, ABN AMRO Incorporated and Banc One Capital Markets, Inc., was filed as Exhibit 4.10 to the Form S-4 Registration Statement dated as of September 27, 2000.
4.10	Euro Notes Registration Rights Agreement dated August 3, 2000, among FFBV, the Euro Notes Guarantors, Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO International Limited and First Chicago Limited, was filed as Exhibit 4.11 to the Form S-4 Registration Statement, dated as of September 27, 2000.
10.1	Flowserve Corporation Incentive Compensation Plan for Senior Executives, as amended and restated effective October 1, 2000 was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.2	Supplemental Pension Plan for Salaried Employees was filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**
10.3	Flowserve Corporation Director Deferral Plan, as amended and restated effective October 1, 2000 was filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.4	First Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**
10.5	Amendment No. 1 to the first Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**
10.6	Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.7	Second Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**
10.8	First Amendment to Second Master Benefit Trust Agreement was filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**
10.9	Long-Term Incentive Plan, as amended and restated effective October 1, 2000 was filed as Exhibit 10.10 to the

	Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.10	Flowserve Corporation 1989 Stock Option Plan as amended and restated effective January 1, 1997 was filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**
10.11	Flowserve Corporation Second Amendment to the 1989 Stock Option Plan as previously amended and restated was filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.**
10.12	Amendment No. 3 to the Flowserve Corporation 1989 Stock Option Plan was filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.13	Flowserve Corporation 1989 Restricted Stock Plan (the "1989 Restricted Stock Plan") as amended and restated effective January 1, 1997 was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**
10.14	Amendment No. 1 to the 1989 Restricted Stock Plan as amended and restated was filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.**
10.15	Amendment No. 2 to Flowserve Corporation 1989 Restricted Stock Plan was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.16	Flowserve Corporation 1989 Restricted Stock Dividend Plan, effective October 1, 2000 was filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.17	Flowserve Corporation Retirement Compensation Plan for Directors ("Director Retirement Plan") was filed as Exhibit 10.15 to the Company's Annual Report to Form 10-K for the year ended December 31, 1988.**
10.18	Amendment No. 1 to Director Retirement Plan was filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**
10.19	The Company's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.**
10.20	Amendment No. 1 dated December 15, 1992 to the Equalization Plan was filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**
10.21	Flowserve Corporation Executive Equity Incentive Plan as amended and restated effective July 21, 1999, was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.**

10.22	Flowserve Corporation Deferred Compensation Plan was filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.23	Executive Life Insurance Plan of Flowserve Corporation was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**
10.24	Executive Long-Term Disability Plan of The Duriron Company, Inc. was filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**
10.25	Flowserve Corporation 1997 Stock Option Plan was included as Exhibit A to the Company's 1997 Proxy Statement which was filed on March 17, 1997.**
10.26	First Amendment to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.**
10.27	Amendment No. 2 to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.**
10.28	Amendment No. 3 to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.29	Flowserve Corporation 1999 Stock Option Plan was included as Exhibit A to the Company's 1999 Proxy Statement which was filed on March 15, 1999.**

10.30	Amendment No. 1 to the Flowserve Corporation 1999 Stock Option Plan was filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.**
10.31	Amendment No. 2 to the Flowserve Corporation 1999 Stock Option Plan was filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.32	BW/IP International, Inc. Supplemental Executive Retirement Plan as amended and restated was filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter entered March 31, 1998.**
10.33	Flowserve Corporation 1998 Restricted Stock Plan was included as Exhibit A to the Company's 1999 Proxy Statement which was filed on April 9, 1998.**
10.34	Amendment No. 1 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.**
10.35	Amendment No. 2 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.**
10.36	Amendment No. 3 to Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**

10.37	Amendment No. 4 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.**
10.38	Flowserve Corporation 1998 Restricted Stock Dividend Plan (effective October 1, 2000) was filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.39	Employment Agreement, effective July 1, 1999, between the Company and C. Scott Greer was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.**
10.40	Loan Agreement between the Company and C. Scott Greer was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.**
10.41	Credit Agreement among the Registrant, certain of its subsidiaries referred to therein, the lenders referred therein, Credit Suisse First Boston, New York branch, a syndication agent, Bank of America, N.A., as administrative agent, collateral agent and swingline lender, and ABN AMRO Bank N.V., Bank One, N.A. and Salomon Smith Barney, Inc., as co-documentation agents, dated August 8, 2000 ("2000 Credit Agreement"), was filed as Exhibit 10.45 to the Form S-4 Registration Statement dated as of September 27, 2000.
10.42	Security Agreement among the Registrant, certain of its subsidiaries referred to therein and Bank of America, N.A. dated as of August 8, 2000, was filed as Exhibit 10.46 to the Form S-8 Registration Statement dated as of September 27, 2000.
10.43	First Amendment to the 2000 Credit Agreement dated November 9, 2001, was filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
10.44	Amendment to Master Benefit Trust Agreement was filed as Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.**
10.45	Executive Severance Arrangement was filed as Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.**
10.46	Flowserve Corporation Executive Officers Change In Control Severance Plan, effective January 1, 2002 (filed herewith).**
10.47	Flowserve Corporation Officers Change In Control Severance Plan, effective January 1, 2002 (filed herewith).**
10.48	Flowserve Corporation Key Management Change In Control Severance Plan, effective January 1, 2002 (filed herewith).**
10.49	Amendment No. 1 to the Flowserve Corporation Flex Health & Welfare Plan, as amended and restated, effective December 1, 2002 (filed herewith).**

10.50	Amendment No. 1 to the Flowserve Corporation Deferred Compensation Plan, as amended and restated, effective June 1, 2000 (filed herewith).**
10.51	2002 Restricted Stock Unit Plan, effective December 1, 2002 (filed herewith).**
10.52	Flowserve Corporation Senior Management Retirement Plan, effective July 1, 1999 (filed herewith).**

10.53	Flowserve Corporation Supplemental Executive Retirement Plan, effective July 1, 1999 (filed herewith).**
10.54	Flowserve Corporation Performance Unit Plan, effective January 1, 2001 (filed herewith).**
13.1	2002 Annual Report to Shareholders (filed herewith as part of this Form 10-K report to the extent incorporated herein by reference).
14.1	Flowserve Financial Management Code of Ethics adopted by the Company's principal executive officer and CEO, principal financial officer and CFO, principal accounting officer and controller, and other senior financial managers (filed herewith as part of this report and incorporated herein by reference).
21.1	Subsidiaries of the Company (filed herewith).
22.1	2003 Proxy Statement (filed herewith as part of this Form 10-K report to the extent incorporated herein by reference).
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith).
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

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

Forward-Looking Information is Subject to Risk and Uncertainty

This Annual Report on Form 10-K and other written reports and oral statements made from time-to-time by the Company contain various forward-looking statements and include assumptions about the Company's future financial and market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are:

- changes in the financial markets and the availability of capital;
- changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies;
- the Company's ability to integrate past and future acquisitions into its management and operations;
- political risks, military actions or trade embargoes affecting customer markets, including the possibility of a war with Iraq and its potential impact on Middle Eastern markets and global petroleum producers;
- the health of the petroleum, chemical, power and water industries;
- economic conditions and the extent of economic growth in areas inside and outside the United States;

- unanticipated difficulties or costs associated with the implementation of systems, including software;
- the Company's relative geographical profitability and its impact on the Company's utilization of foreign tax credits;
- the recognition of expenses associated with adjustments to realign the combined Company and acquisition facilities and other capabilities with its strategic and business conditions, including, without limitation, expenses incurred in restructuring the Company's operations to incorporate acquisition facilities;
- the Company's ability to meet the financial covenants and other requirements of its financing agreements;
- repercussions from the terrorist attacks of September 11, 2001, the threat of future attacks and the response of the United States to those attacks;
- technological developments in the Company's products as compared with those of its competitors;
- changes in prevailing interest rates and the effective interest costs which the Company bears; and
- adverse changes in the regulatory climate and other legal obligations imposed on the Company.

The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 21st day of February 2003.

FLOWSERVE CORPORATION (Registrant)

By: /s/ C. Scott Greer

C. Scott Greer
Chairman, President and Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ C. Scott Greer C. Scott Greer	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 21, 2003
/s/ Renée J. Hornbaker Renée J. Hornbaker	Vice President and Chief Financial Officer (Principal Financial Officer)	February 21, 2003
/s/ Kathleen A. Giddings Kathleen A. Giddings	Vice President and Controller (Principal Accounting Officer)	February 21, 2003
/s/ Diane C. Harris Diane C. Harris	Director, Chairman of Audit/Finance Committee	February 21, 2003
/s/ William C. Rusnack William C. Rusnack	Director, Member Audit/Finance Committee	February 21, 2003
/s/ Charles M. Rampacek	Director, Member Audit/Finance Committee	February 21, 2003

Charles M. Rampacek

/s/ James O. Rollans	Director, Member Audit/Finance Committee	February 21, 2003
James O. Rollans		
/s/ Kevin E. Sheehan	Director	February 21, 2003
Kevin E. Sheehan		

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

I, C. Scott Greer, Chief Executive Officer of the Flowserve Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Flowserve Corporation;

2. Based on my knowledge, this annual 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 circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures 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 annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

/s/ C. Scott Greer
C. Scott Greer
Chief Executive Officer

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

I, Renée J. Hornbaker, Chief Financial Officer of the Flowserve Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Flowserve Corporation;

2. Based on my knowledge, this annual 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 circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures 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 annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committeee of the registrant's board of directors:

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

/s/ Renée J. Hornbaker
Renée J. Hornbaker
Vice President and Chief Financial Officer

FLOWSERVE CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
Item 15(a)(1) and (2)

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

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To The Board of Directors of Flowserve Corporation:

Our audits of the consolidated financial statements referred to in our report dated February 3, 2003 appearing in the 2002 Annual Report to Shareholders of Flowserve Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Dallas, Texas

February 3, 2003

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

Column A	Column B	Column C		Column D	Column E
	Balance at beginning of year	**(1)Additions charged to cost and expenses**	**(2)Additions charged to other accounts—acquisitions and related adjustments**	**Deductions from reserve**	**Balance at end of year**
Description					
Year ended December 31, 2002:					
Allowance for doubtful accounts (a):	$ 20,800	$ 3,091	$ 2,423	$ (5,304)	$ 21,010
Year ended December 31, 2001:					
Allowance for doubtful accounts (a):	$ 18,481	$ 4,556	$ 2,087	$ (4,324)	$ 20,800
Year ended December 31, 2000:					

Allowance for doubtful accounts (a):	$ 5,705	$ 2,782	$ 11,386	$ (1,392)	$ 18,481
Year ended December 31, 2002:					
Inventory reserves (b):	$ 42,986	$ 4,093	$ —	$ (6,704)	$ 40,375
Year ended December 31, 2001:					
Inventory reserves (b):	$ 37,114	$ 4,949	$ 5,948	$ (5,025)	$ 42,986
Year ended December 31, 2000:					
Inventory reserves (b):	$ 18,935	$ 6,066	$ 17,195	$ (5,082)	$ 37,114

(a) Deductions from reserve represent accounts written off net of recoveries.
(b) Deductions from reserve represent inventory disposed of or written off.

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.46

FLOWSERVE CORPORATION
EXECUTIVE OFFICER CHANGE IN CONTROL SEVERANCE PLAN
EFFECTIVE JANUARY 1, 2002

ARTICLE 1. ESTABLISHMENT AND PURPOSE

1.01 Flowserve Corporation, a New York corporation (the "Company" or "Corporation"), hereby establishes this plan to be known as the "Flowserve Corporation ***Executive Officer*** Change in Control Severance Plan" (the "Plan") as set forth in this document.

1.02 The Company may from time-to-time become involved in possible Change in Control situations. Should this occur, in addition to their regular duties, Employees may be called upon to assist in the assessment of any third-party or internal proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its shareholders, participate in successfully completing such transactions and take such other actions as the Board might determine appropriate.

1.03 This Plan has been established for the purpose of assuring that the Company will have the continued dedication of the Participants, and the availability of Participants' advice and counsel as to the best interests of the Company and its shareholders, notwithstanding the possibility, threat, or occurrence of a Change in Control, and to induce Participants to remain in the employ of the Company through the provision of certain protections in the event of a qualifying Change in Control.

1.04 As approved by the Compensation Committee, the Plan shall become effective as of January 1, 2002 and shall remain in effect until terminated by the Committee.

ARTICLE 2. DEFINITIONS

2.01 **"Affiliate" or "Subsidiary"** means any corporation which is a member of a controlled group of corporations (determined in accordance with Section 414(b) of the Code) of which the Company is a member and any other trade or business (whether or not incorporated) which is controlled by, or under common control (determined in accordance with Section 414(c) of the Code) with the Company.

2.02 **"Board" or "Board of Directors"** means the Board of Directors of the Company.

2.03 **"Cause"** means: (A) the willful and continued failure by a Participant to substantially perform his duties with the Company (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 Participant by the Board which specifically identifies the manner in which the Board believes that he has not substantially performed his duties, or (B) the willful engaging by the Participant in conduct materially and demonstrably injurious to the Company, monetarily or otherwise; provided, however, that if the Participant 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 Participant's sole judgment, the action or omission was done, or omitted to be done, in good faith and with a reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Participant shall not be deemed to have terminated for Cause unless and until there shall have been delivered to him 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, or, if after a Change in Control, the Incumbent Board, at a meeting of the Board or Incumbent Board, as appropriate, called and held for the purpose (after reasonable notice to the Participant and an opportunity for the Participant, together with counsel, to be heard before the Board or 2.04 Incumbent Board, as appropriate), finding that in the good faith opinion of the Board or Incumbent Board the Participant was guilty of conduct set forth above in clause (A) or (B) of this Article 2.03, and specifying the particulars thereof in detail.

2.05 **"Change in Control"** means any change in control as described in Article 4 herein.

2.06 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.07 **"Company" or "Corporation"** means Flowserve Corporation, a New York corporation, its successors and assigns and Affiliates or Subsidiaries of the Company.

2.08 **"Compensation Committee"** or **"Committee"** means the Compensation Committee established and appointed by the Board of Directors.

2.09 **"Constructive Termination"** means the termination of a Participant's employment with the Company within two (2) years after a Change in Control, after the occurrence of any or all of the following without the express written consent of the Participant:

(A) The assignment to the Participant of any duties inconsistent with his position, duties, responsibilities and status with the

Company immediately prior to a Change in Control, or a change in his reporting responsibilities, titles or offices as in effect immediately prior to a Change in Control, or any removal of the Participant from or any failure to re-elect the Participant to any of such positions, except in connection with the termination of his employment for Cause, death or Disability or termination of employment by the Participant for reasons other than Constructive Termination;

(B) A reduction by the Company of:

(i) the Participant's base salary rate, (whether deferred or not), based on the annualized base salary rate measured during the twelve (12) months of the year preceding the date of a Change in Control; or

(ii) the target bonus payable to the Participant, calculated as the average percentage of the Participant's base salary represented by target bonuses for the three (3) years (or, if shorter, the years of the Participant's employment with the Company) immediately preceding the year in which a Change in Control occurs as percentages of his base salaries in each of such three (3) years (or shorter number of years), multiplied by the base salary rate determined pursuant to Article 2.08(B)(i) above.

(C) The Company's requiring the Participant to be based anywhere other than either the Company's offices at which he was based immediately prior to a Change in Control or the Company's offices which are no more than thirty-five (35) miles from the offices at which the Participant was based immediately prior to a Change in Control, except for required travel on the Company's business to an extent substantially consistent with his business travel obligations immediately prior to the Change in Control (excluding, however, any travel obligations prior to the Change in Control that are associated with or caused by the Change in Control events or circumstances), or, in the event the Participant consents to any relocation beyond such thirty-five (35) mile radius, the failure by the Company to pay (or reimburse the Participant) for all reasonable moving expenses incurred by him relating to a change of his principal residence in connection with such relocation and to indemnify the Participant against any loss (defined as the difference between the actual sale price of such residence minus any customary transaction costs and the higher of (i) his aggregate investment in such residence or (ii) the fair market value of such residence as determined by a real estate appraiser designated by the Participant and reasonably satisfactory to the Company) realized on the sale of the Participant's principal residence in connection with any such change in residence;

(D) The failure by the Company to continue in effect any benefit or compensation plan (including but not limited to any stock option plan, pension plan, deferred compensation plan, life insurance plan, health and accident plan or disability plan) in which the Participant is participating at the time of a Change in Control (or plans providing substantially similar benefits), the taking of any action by the Company which would adversely affect the Participant's participation in, payment from, or materially reduce his benefits under any of

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such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Company to provide the Participant with the number of days of paid time off to which he is then entitled in accordance with the Company's normal paid time off and/or vacation policy in effect immediately prior to the Change in Control;

(E) Any failure by the Company to obtain the assumption of, or the agreement to perform, this Plan by any successor; or

(F) Any other material failure of the Company otherwise to honor all the terms and provisions of this Plan.

2.10 **"Defined Termination"** means a termination of employment of an Employee as a result of either (A) an Involuntary Termination or (B) a Constructive Termination.

2.11 **"Disability"** means a long-term disability as defined in and meeting the terms and conditions of the Flowserve Corporation Long-Term Disability Plan, as amended, or any successor plans.

2.12 **"Employee"** means any person paid through the payroll department of the Company (as opposed to the accounts payable department of the Company) and who receives from the Company an annual IRS Form W-2; 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, nor the employees of any such person, regardless of whether that person (including his or her employees) is later found to be an employee by any court of law or regulatory authority.

2.13 **"Exchange Act"** means the Securities and Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.14 **"Involuntary Termination"** means any involuntary discontinuance of a Participant's employment by the Company within two (2) years after a Change in Control, for reasons other than death, Disability or Cause, or any involuntary discontinuance of a Participant's employment by the Company prior to a Change in Control for reasons other than death, Disability or Cause, provided that such termination (A) occurs after the initiation of discussions leading to a Change in Control, but prior to the Change in Control and (B) can be demonstrated to have occurred at the request or initiation of parties to the Change in Control.

2.14 **"Participant"** means an Employee chosen by the Committee to participate in the Plan as provided for in Article 3 herein.

2.15 **"Plan"** means the Flowserve Corporation Executive Officer Change in Control Severance Plan, as set forth herein and as

hereafter amended from time to time.

2.16 **"Termination"** means the date on which an Employee ceases performing services for the Company.

2.17 The masculine pronoun shall be construed to mean the feminine and the singular shall be construed to mean the plural, wherever appropriate herein.

ARTICLE 3. ELIGIBILITY AND PARTICIPATION

3.01 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.

3.02 Participation in the Plan shall be determined from time to time by the Committee; provided that on or after a Change in Control, the Committee may not exclude any Participant from participation in the Plan. Participants shall be notified of their participation in the Plan in writing, and

shall be appraised of the terms of the Plan as soon as is practicable following the Committee's determination.

3.03 No Employee shall at any time have a right to participation in the Plan, despite having previously participated in the Plan.

ARTICLE 4. CHANGE IN CONTROL

4.01 For purposes of the Plan, Change in Control shall mean any Change in Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (excluding any transaction described in Section 4.02 below that is specifically determined thereunder to not constitute a Change in Control).

4.02 Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(A) Any "Person" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than the Company or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (i) the then outstanding common shares of the Company (the "Outstanding Shares") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by a Subsidiary, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i) or (ii) of Article 4.02(C) below are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Securities as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, including any affiliates defined in clauses (A)(ii)(2) or (A)(ii)(3) of this Article 4.02, which, by reducing the number of Outstanding Shares or Voting Securities, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Securities which increases the percentage of the Outstanding Shares or Voting Securities beneficially owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(B) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, Disability, or ineligibility of the director to seek reelection to the Board as a result of term or age limitations, to constitute at least two-thirds ($^2/_3$) of the Board within any consecutive twenty-four (24) month period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such twenty-four (24) month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds ($^2/_3$) of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of

proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(C) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Securities, as the case may be, or (ii) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the officers of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the Board of Directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the board of directors of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation and (3) the positions of Chairman of the Board of Directors, the Chief Executive Officer, and the President of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(D) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such Outstanding Shares and Voting Securities, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds ($^2/_3$) of the members of the board of directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

4.03 Notwithstanding anything to the contrary in this Article 4 and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Article 4. In such circumstances, a Change in

Control will be deemed to have occurred through a vote by two-thirds ($^2/_3$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

ARTICLE 5. PROTECTIONS PROVIDED UPON A CHANGE IN CONTROL

5.01 Except as otherwise provided herein, upon the consummation of a Change in Control as defined in Article 4 of the Plan, all service and other vesting requirements associated with Participants' annual and long-term incentives will be determined in accordance with the provisions of the applicable plans in effect on the date of the Change in Control; provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to all active and incomplete long-term incentive program performance cycles and (B) credit for satisfaction of other service requirements associated with Participants' long-term incentives and compensation deferrals. In the event that such minimum rights are not accorded to participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 5.01 shall prevail.

5.02 The Board may, at its sole election, establish prior to or upon the consummation of a Change in Control a trust or other arrangements for the funding or payment of amounts to which Participants gain full rights pursuant to Article 5.01 above.

5.03 In the event the Board elects to establish a trust or provide for other arrangements pursuant to Article 5.02 herein, no later than the consummation of the Change in Control, such trust or other arrangements shall be established and appropriate monies shall be placed under the control of such trust or other entity overseeing the administration of alternative arrangements.

5.04 In making its election, the Board shall have a fiduciary responsibility to consider the tax consequences to Participants of alternative arrangements, but shall not be required to compensate participants for the tax consequences resulting from the establishment of such arrangements.

ARTICLE 6. PROTECTIONS PROVIDED UPON TERMINATION FOLLOWING A CHANGE IN CONTROL

6.01 Participants terminated in a manner qualifying as a Defined Termination will be entitled to payment of the following:

(A) For services performed through Termination:

(i) base salary, (whether deferred or not), at the Participant's annual base salary rate, (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control;

(ii) amounts (whether deferred or not), if any, with respect to any completed period or periods which have been earned by or awarded to the Participant pursuant to any bonus or incentive compensation plan or arrangement but which has not yet been paid to the Participant; and

(iii) amounts equal to a target bonus or target annual incentive, (whether deferred or not), (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

(B) In lieu of any further base salary, bonus, or incentive compensation payments for periods subsequent to Termination, an amount equal to ***300%*** of the sum of:

(i) the Participant's annual base salary rate, (whether deferred or not), (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control; and

(ii) the Participant's current target bonus or other annual incentive (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

6.02 Each Performance Unit Plan award ("PUP award"), stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in this Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant has full rights, shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum that (A) such awards earned but not paid shall be paid pursuant to the terms of this Plan at a rate as specified by the relevant plan provisions and (B) with respect to stock options or other awards for which Participants must exercise those rights accorded to them by virtue of their holding such award, a period of not less than ninety (90) days following Termination during which Participants may exercise such rights. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 6.02 shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company prior to receipt of payment written instructions not to make a payment for option(s) or other stock-based long-term incentive grants as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.03 Each PUP award, stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant does not have full rights shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to the award or grant which would have otherwise been conveyed to the Participant, without encumbrances, upon the lapse of time, attainment of performance goals, or for other reasons; (B) amounts payable through such rights to awards or grants provided by Article 6.03(A) represent an amount equal to one hundred percent (100%) of the target bonus or amount that otherwise could have been earned and shall not be subject to reduction, adjustment or modification for any reason; and (C) a period of not less than ninety (90) days following Termination during which to exercise rights with respect to stock options or other awards for which Participants must exercise the rights accorded to them by virtue of their holding of the award. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for Article 6.03(B) hereof shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company, prior to receipt of payment, written instructions not to make a payment for option(s) or other stock-based long-term incentive grant(s) as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.04 The Company shall, at its expense, maintain in full force and effect all life insurance, medical, health and accident plans, programs and arrangements in which each Participant is entitled to participate at the time of Termination, provided that continued participation is possible under the terms of such plans, programs and arrangements. In the event that the terms of any such plan, program or arrangement do not permit continued participation or that any such plan, program or arrangement has been or is discontinued or the benefits thereunder have been or are materially reduced, the Company shall arrange to provide, at a cost to Participants no greater than that prior to Termination, benefits which are substantially similar to those which Participants were entitled to receive under such plan, program or arrangement at the time of the Change in Control. The Company's obligation under this Article 6.04 shall terminate on the ***third (3rd) anniversary*** of Termination, but benefits available under the Consolidated Omnibus Budget Reconciliation Act (COBRA) shall commence on such date. At the end of the applicable period of coverage set forth above, Participants shall have the option to have assigned to them, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company which relates specifically to them.

6.05 In the event that because of their relationship to Participants, members of Participants' families or other individuals are covered by any plan, program, or arrangement described in Article 6.04 above immediately prior to Termination, the provisions set forth in Article 6.04 above shall apply equally to require the continued coverage of such persons; provided, however, that if under the terms of any such plan, program or arrangement, any such person would have ceased to be eligible for coverage during the period in which the Company is obligated to continue coverage, nothing set forth herein shall obligate the Company to continue to provide coverage for such person beyond the date such coverage would have ceased even had Participants remained an Employee of the Company.

6.06 The Company shall pay a supplemental retirement benefit ("Supplemental Pension Benefit") to Participants which is equal to the excess, if any, of (A) the aggregate amount which would have been payable to them monthly under all noncontributory pension and retirement plans, agreements, and other arrangements of the Company had the Participant remained an Employee of the Company at an annual compensation rate pursuant to the sum of the amounts described in Articles 6.01(B)(i) and 6.01(B)(ii) herein until the ***third (3rd) anniversary*** of Termination, over (B) the aggregate amount payable to the Participant monthly under such plans, agreements or arrangements as of Termination had the Participant's employment not been terminated. Calculation of the amounts described in (A) and (B) above shall be made assuming the same form of payment under the defined benefit pension plan of the Company or a successor plan (the "Qualified Plan") in which the Participant participates. Payment of any Supplemental Pension Benefit may be made to the Participant in the same form and at the same time as payment of benefits under the Qualified Plan or in such other manner as may be determined by the Compensation Committee.

6.07 Participants terminated in a manner qualifying as a Defined Termination will be entitled to reimbursement for all legal fees and expenses reasonably incurred in good faith as a result of their Termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Plan).

6.08 Receipt of amounts payable pursuant to this Article 6 is conditioned upon Participants' execution and delivery to the Company of the confidentiality and non-compete agreement delivered to Employees upon notification of their eligibility to participate in the Plan.

6.09 Any amounts paid as a result of this Plan are subject to adjustment to reflect any such arrangement where the Participant agrees to work for the Company or provide future services to the Company, in any form, subsequent to the Participant's termination from the Company as set forth in a consulting arrangement or other employment-related arrangement between the Company and the Participant for a period not to exceed ***two (2) years*** from Termination. The amount of any such adjustment to amounts paid under this Plan shall reflect compensation for services rendered subsequent to the Participant's Termination. The amount of any such adjustment to amounts paid as a result of this Plan shall be as mutually agreed upon in writing by the Participant and the Company prior to Termination.

ARTICLE 7. GROSS-UP OF PAYMENTS DEEMED TO BE EXCESS PARACHUTE PAYMENTS

7.01 Following a Change in Control of the Company, one or more payments or distributions to be made by the Company to or for the benefit of Participants (whether paid or payable or distributed or distributable pursuant to the terms of this Plan, under some other plan, agreement, arrangement or otherwise) (a "Payment") may be determined to be an "excess parachute payment" that is not deductible by the Company for federal income tax purposes and with respect to which Participants would be subject to an excise tax because of Sections 280G and 4999, respectively, of the Internal Revenue Code (hereinafter referred to respectively as "Section 280G" and "Section 4999"). To the

extent a Payment or portion thereof subjects Participants to an excise tax liability, the Company will make additional payments to Participants to fully protect against any application of such excise tax (the "Gross-Up Payments"). In furtherance and not in limitation of the foregoing, any Gross-Up Payments made by the Company shall be sufficient to fully protect and compensate the Participant even if the amounts determined to constitute excess parachute payments are increased due to the Participant's deferral, from time to time, of compensation payable to the Participant by the Company.

7.02 Participants terminated in a manner qualifying as a Defined Termination following a Change in Control shall be eligible to receive Gross-Up Payments pursuant to the following provisions:

(A) The Company's independent auditor shall make an initial determination whether any Payment would constitute an excess parachute payment and shall communicate its determination, together with detailed supporting calculations, to affected Participants within twenty (20) days after Termination. The Company's determination and calculations will be final and binding upon the Participant unless the Participant notifies the Company within twenty-one (21) days after the Participant receives the Company's determination and calculations that the Participant disputes the same. If, within ten (10) days after the Participant so notifies the Company (or within such longer period as the Participant and the Company may agree), the Company and the Participant are unable to agree upon the determination and calculations, then the Company and the Participant shall, within three (3) days thereafter, choose a nationally recognized accounting firm (the "Accounting Firm") to deliver its determination (and supporting calculations) concerning the matter(s) in dispute. The Accounting Firm's determination shall be delivered to the Company and the Participant within twenty (20) days after such Accounting Firm's appointment and shall be final and binding on all parties. With respect to the Participant's costs incurred in contesting the Company's determination and calculations, if the final determination by the Accounting Firm is more than 2% different from the determination proposed by the Company, then the Company shall pay or reimburse all costs incurred by the Participant with respect to such determination. In all other cases, the Participant shall pay all such costs. All costs incurred by the Company in connection with such determination and contest, and the costs of the Accounting Firm's determination, shall be borne by the Company. The Company and the Participant shall cooperate with each other and the Accounting Firm, and shall provide necessary information so that the Company, the Participant and the Accounting Firm may make all appropriate determinations and calculations.

(B) If it is determined (pursuant to Article 7.02(A) or otherwise) that any Payment gives rise, directly or indirectly, to Participant liability for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax), the Company shall make Gross-Up Payments to Participants, from time to time and at the same time as any Payment constituting an excess parachute payment is paid or provided to Participants (or as promptly thereafter as is possible), in such amounts as are necessary to put Participants in the same position, after payments of all federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, for other taxes, and taking into account all such taxes payable with respect to the Gross-Up Payments) and any and all penalties and interest with respect to any such excise tax, as Participants would have been in after payment of all federal, state and local income taxes if the Payments had not given rise to an excise tax under Section 4999 and no such penalties or interest had been imposed. For purposes of determining the amount of any Gross-Up Payments, Participants will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of residence, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

(C) Pending a final determination of the amount of any Gross-Up Payment payable, Participants shall have the right to require the Company to pay to all or any portion of such amount as preliminarily determined and calculated by the Company. Such payment shall be made by the Company within five (5) days after receipt of notice from the Participant requiring the same.

7.03 If the Internal Revenue Service determines that any payment gives rise, directly or indirectly, to liability on the part of Participants for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax) in excess of the amount, if any, previously determined by the Company or the Accounting Firm, as the case may be, the Company shall make further additional cash payments to Participants not later than the due date of any payment indicated by the Internal Revenue Service with respect to such matters, in such amounts that are necessary to put Participants in the same position, after payment of all federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, or other taxes, and taking into account all such taxes payable with respect to the Gross-Up Payments) and any and all penalties and interest with respect to any such excise tax, as Participants would have been in after payment of all federal, state and local income taxes if the Payments had not given rise to an excise tax under Section 4999 and no such penalties or interest had been imposed.

7.04 If the Company desires to contest any determination by the Internal Revenue Service with respect to the amount of excise tax under Section 4999, Participants shall, upon receipt from the Company of an unconditional written undertaking to indemnify and hold Participants harmless (on an after-tax basis) from any and all adverse consequences that might arise from the contesting of that determination, cooperate with the Company in that contest at the Company's sole expense. Nothing in this Article 7.04 shall require Participants to incur any expense other than expenses with respect to which the Company has paid sufficient sums so that after payment of the expense by Participants and taking into account the payment by the Company with respect to that expense and any and all taxes that may be imposed upon Participants as a result of their receipt of that payment, the net effect is no cost to Participants. Nothing in this Article 7.04 shall require Participants to extend the statute of limitations with respect to any item or issue in their tax returns other than, exclusively, the excise tax under Section 4999. If, as a result of the contest of an assertion by the Internal Revenue Service with respect to excise tax under Section 4999, Participants receive a refund of a Section 4999 excise tax previously paid and/or any interest with respect thereto, Participants shall promptly pay to the Company such amount as will leave them, net of the repayment and all tax effects, in the same position, after all taxes and interest, that would have been in if the refunded excise tax had never been paid.

ARTICLE 8. METHOD OF PAYMENT

8.01 Except as otherwise provided herein, all benefits provided for under this Plan will be paid to Participants terminated in a manner qualifying as a Defined Termination by the Company in a lump sum within thirty (30) days following Participants' Termination.

8.02 Notwithstanding anything in this Plan to the contrary, Participants shall continue to be eligible to receive benefits under the Company's benefit plans for the applicable period as if the Participant remained in the employment of the Company for the period and subject to the provisions of Article 6.04 herein.

8.03 Reimbursement of all legal fees and expenses described in Article 6.07 herein shall be made by the Company in a lump sum within thirty (30) days following Participants' submission of such fees and expenses to the Company.

8.04 In the event a Participant dies before full receipt of benefits payable under the Plan, the remaining benefits will be paid to the legal representative of such Employee's estate in a lump sum as soon as practicable after receipt of notice of such death and evidence satisfactory to the Company of the payment or provision for the payment of any estate, transfer, inheritance or death taxes which may be payable with respect thereto.

8.05 Participants shall not be required to mitigate the amount of any payment provided for under this Plan by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Plan be reduced by any compensation earned by Participants following Termination as the result of employment by another employer or otherwise.

ARTICLE 9. FINANCIAL PROVISIONS

9.01 Except as provided for in Article 5 herein, all benefits payable under this Plan shall be payable and provided for solely from the general assets of the Company in accordance with the Plan, at the time such severance benefits are payable, unless otherwise determined by the Company. The Company shall not be required to, but may in its discretion, establish any special or separate fund or make any other segregation of assets to assure the payment of any severance benefits under the Plan.

9.02 The expenses of establishment and administration of the Plan shall be paid by the Company. Any expenses paid by the Company pursuant to this Article 9 and indemnification under Article 11 shall be subject to reimbursement by Affiliates of the Company of their proportionate shares of such expenses and indemnification, as determined by the Committee in its sole discretion.

ARTICLE 10. ADMINISTRATION OF THE PLAN

10.01 The Committee shall be responsible for the general administration and interpretation of the Plan and the proper execution of its provisions and shall have full discretion to carry out its duties. In addition to the powers of the Committee specified elsewhere in the Plan, the Committee shall have all discretionary powers necessary to discharge its duties under the Plan, including, but not limited to, the following discretionary powers and duties: (A) to interpret or construe the Plan, and resolve ambiguities, inconsistencies and omissions; (B) to make and enforce such rules and regulations and prescribe the use of such forms as it deems necessary or appropriate for the efficient administration of the Plan; and (C) to decide all questions on appeal concerning the Plan and the eligibility of any person to participate in the Plan.

10.02 The determination of the Committee as to any question involving the general administration and interpretation or construction of the Plan shall be within its sole discretion and shall be final, conclusive and binding on all persons, except as otherwise provided herein or by law.

10.03 The Company reserves the right, by action of the Board of Directors or the Committee, to amend or terminate this Plan in whole or in part at any time and from time to time on a prospective basis. The foregoing sentence to the contrary notwithstanding, for a period of three (3) years and one (1) day after the date of a Change in Control, neither the Board, the Incumbent Board, nor the Committee may terminate or amend this Plan in a manner that is detrimental to the rights of any Participant of the Plan without his or her written consent. Prior to a Change in Control, the Company or the Committee shall give each Participant at least one (1) year's notice before taking any action to amend or terminate the Plan in any way detrimental to the Participant.

ARTICLE 11. LIABILITY AND INDEMNIFICATION

11.01 To the extent permitted by law, no member of the Board shall be liable for any act or omission to act by him or her in connection with the Plan, unless the member failed to act (1) in good faith and (2) for a purpose which such member reasonably believed to be in accordance with the intent of the Plan. The Company hereby indemnifies each person made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, or against whom any claim or demand is made, by reason of the fact that he, his testator or intestate, was or is a member of the Board, against

judgments, fines, amounts paid in settlement and reasonable expenses (including attorney's fees) actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, or as a result of such claim or demand, if such member of the Board acted in good faith for a purpose which he reasonably believed to be in accordance with the intent of the Plan and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful.

11.02 The termination of any such civil or criminal action or proceeding or the disposition of any such claim or demand, by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that any such member of the Board did not act (1) in good faith and (2) for a purpose which he reasonably believed to be in accordance with the intent of the Plan.

11.03 Any indemnification under this Article 11, unless ordered by a court of competent jurisdiction, shall be made by the Company only if authorized in the specific case:

(A) By the Board of Directors acting by a quorum consisting of directors who are not parties to such action, proceeding, claim or demand, upon a finding that the member of the Board has met the standard of conduct set forth in Article 11.01 above; or

(B) If a quorum under Article 11.03(A) above is not obtainable with due diligence: (i) by the Board of Directors upon the opinion in writing of independent legal counsel (who may be counsel to the Company) that indemnification is proper in the circumstances because the standard of conduct set forth in Article 11.01 above has been met by such member of the Board; or (ii) by the shareholders of the Company upon a finding that the member of the Board has met the standard of conduct set forth in such Article 11.01 above.

11.04 Notwithstanding the failure of the Company to provide indemnification in the manner set forth in Article 11.01 above, and despite any contrary resolution of the Board or of the shareholders in the specific case, if the member of the Board has met the standard of conduct set forth in Article 11.01 above, the person made or threatened to be made a party to the action or proceeding or against whom the claim or demand has been made, shall have the legal right to indemnification from the Company as a matter of contract by virtue of this Plan, it being the intention that each such person shall have the right to enforce such right of indemnification against the Company in any court of competent jurisdiction.

11.05 Nothing herein shall be deemed to supercede or conflict with any agreement between a member of the Board and the Company regarding the Company's obligations to indemnify such member from and against certain liabilities arising from the performance of the member's duties. Any such agreement shall govern any inconsistencies with Article 12 of the Plan.

ARTICLE 12. MISCELLANEOUS

12.01 Prior to a Change of Control, nothing contained in the Plan shall be deemed to qualify, limit or alter in any manner the Company's sole and complete authority and discretion to establish, regulate, determine or modify at any time, the terms and conditions of employment, including, but not limited to, levels of employment, hours of work, the extent of hiring and employment termination, when and where work shall be done, or any other matter related to the conduct of its business or the manner in which its business is to be maintained or carried on, in the same manner and to the same extent as if the Plan were not in existence.

12.02 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. Except as otherwise provided for herein, the Company expressly reserves the right prior to a Change in Control to dismiss any Participant at any time and for any

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reason without liability for the effect which such dismissal might have upon him as a participant of the Plan.

12.03 This Plan shall be governed by and construed in accordance with the substantive laws but not the choice of law rules of the state of Texas without giving effect to principles of conflict of laws.

12.04 In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity o such provision shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included herein.

12.05 All notices under this Plan shall be in writing and shall be mailed (postage prepaid by either registered or certified mail) and shall be deemed to have been given upon the date of actual receipt by the recipient party.

IN WITNESS WHEREOF, the Corporation has caused this instrument as amended and restated to be executed effective as of January 1, 2002, except as otherwise stated herein.

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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Exhibit 10.47

FLOWSERVE CORPORATION
OFFICER CHANGE IN CONTROL SEVERANCE PLAN
EFFECTIVE JANUARY 1, 2002

ARTICLE 1. ESTABLISHMENT AND PURPOSE

1.01 Flowserve Corporation, a New York corporation (the "Company" or "Corporation"), hereby establishes this plan to be known as the "Flowserve Corporation ***Officer*** Change in Control Severance Plan" (the "Plan") as set forth in this document.

1.02 The Company may from time-to-time become involved in possible Change in Control situations. Should this occur, in addition to their regular duties, Employees may be called upon to assist in the assessment of any third-party or internal proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its shareholders, participate in successfully completing such transactions and take such other actions as the Board might determine appropriate.

1.03 This Plan has been established for the purpose of assuring that the Company will have the continued dedication of the Participants, and the availability of Participants' advice and counsel as to the best interests of the Company and its shareholders, notwithstanding the possibility, threat, or occurrence of a Change in Control, and to induce Participants to remain in the employ of the Company through the provision of certain protections in the event of a qualifying Change in Control.

1.04 As approved by the Compensation Committee, the Plan shall become effective as of January 1, 2002 and shall remain in effect until terminated by the Committee.

ARTICLE 2. DEFINITIONS

2.01 **"Affiliate" or "Subsidiary"** means any corporation which is a member of a controlled group of corporations (determined in accordance with Section 414(b) of the Code) of which the Company is a member and any other trade or business (whether or not incorporated) which is controlled by, or under common control (determined in accordance with Section 414(c) of the Code) with the Company.

2.02 **"Board" or "Board of Directors"** means the Board of Directors of the Company.

2.03 **"Cause"** means: (A) the willful and continued failure by a Participant to substantially perform his duties with the Company (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 Participant by the Board which specifically identifies the manner in which the Board believes that he has not substantially performed his duties, or (B) the willful engaging by the Participant in conduct materially and demonstrably injurious to the Company, monetarily or otherwise; provided, however, that if the Participant 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 Participant's sole judgment, the action or omission was done, or omitted to be done, in good faith and with a reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Participant shall not be deemed to have terminated for Cause unless and until there shall have been delivered to him 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, or, if after a Change in Control, the Incumbent Board, at a meeting of the Board or Incumbent Board, as appropriate, called and held for the purpose (after reasonable notice to the Participant and an opportunity for the Participant, together with counsel, to be heard before the Board or 2.04 Incumbent Board, as appropriate), finding that in the good faith opinion of the Board or Incumbent Board the Participant was guilty of conduct set forth above in clause (A) or (B) of this Article 2.03, and specifying the particulars thereof in detail.

2.05 **"Change in Control"** means any change in control as described in Article 4 herein.

2.06 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.07 **"Company" or "Corporation"** means Flowserve Corporation, a New York corporation, its successors and assigns and Affiliates or Subsidiaries of the Company.

2.08 **"Compensation Committee"** or **"Committee"** means the Compensation Committee established and appointed by the Board of Directors.

2.09 **"Constructive Termination"** means the termination of a Participant's employment with the Company within two (2) years after a Change in Control, after the occurrence of any or all of the following without the express written consent of the Participant:

(A) The assignment to the Participant of any duties inconsistent with his position, duties, responsibilities and status with the

Company immediately prior to a Change in Control, or a change in his reporting responsibilities, titles or offices as in effect immediately prior to a Change in Control, or any removal of the Participant from or any failure to re-elect the Participant to any of such positions, except in connection with the termination of his employment for Cause, death or Disability or termination of employment by the Participant for reasons other than Constructive Termination;

(B) A reduction by the Company of:

(i) the Participant's base salary rate, (whether deferred or not), based on the annualized base salary rate measured during the twelve (12) months of the year preceding the date of a Change in Control; or

(ii) the target bonus payable to the Participant, calculated as the average percentage of the Participant's base salary represented by target bonuses for the three (3) years (or, if shorter, the years of the Participant's employment with the Company) immediately preceding the year in which a Change in Control occurs as percentages of his base salaries in each of such three (3) years (or shorter number of years), multiplied by the base salary rate determined pursuant to Article 2.08(B)(i) above.

(C) The Company's requiring the Participant to be based anywhere other than either the Company's offices at which he was based immediately prior to a Change in Control or the Company's offices which are no more than thirty-five (35) miles from the offices at which the Participant was based immediately prior to a Change in Control, except for required travel on the Company's business to an extent substantially consistent with his business travel obligations immediately prior to the Change in Control (excluding, however, any travel obligations prior to the Change in Control that are associated with or caused by the Change in Control events or circumstances), or, in the event the Participant consents to any relocation beyond such thirty-five (35) mile radius, the failure by the Company to pay (or reimburse the Participant) for all reasonable moving expenses incurred by him relating to a change of his principal residence in connection with such relocation and to indemnify the Participant against any loss (defined as the difference between the actual sale price of such residence minus any customary transaction costs and the higher of (i) his aggregate investment in such residence or (ii) the fair market value of such residence as determined by a real estate appraiser designated by the Participant and reasonably satisfactory to the Company) realized on the sale of the Participant's principal residence in connection with any such change in residence;

(D) The failure by the Company to continue in effect any benefit or compensation plan (including but not limited to any stock option plan, pension plan, deferred compensation plan, life insurance plan, health and accident plan or disability plan) in which the Participant is participating at the time of a Change in Control (or plans providing substantially similar benefits), the taking of any action by the Company which would adversely affect the Participant's participation in, payment from, or materially reduce his benefits under any of

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such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Company to provide the Participant with the number of days of paid time off to which he is then entitled in accordance with the Company's normal paid time off and/or vacation policy in effect immediately prior to the Change in Control;

(E) Any failure by the Company to obtain the assumption of, or the agreement to perform, this Plan by any successor; or

(F) Any other material failure of the Company otherwise to honor all the terms and provisions of this Plan.

2.10 **"Defined Termination"** means a termination of employment of an Employee as a result of either (A) an Involuntary Termination or (B) a Constructive Termination.

2.11 **"Disability"** means a long-term disability as defined in and meeting the terms and conditions of the Flowserve Corporation Long-Term Disability Plan, as amended, or any successor plans.

2.12 **"Employee"** means any person paid through the payroll department of the Company (as opposed to the accounts payable department of the Company) and who receives from the Company an annual IRS Form W-2; 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, nor the employees of any such person, regardless of whether that person (including his or her employees) is later found to be an employee by any court of law or regulatory authority.

2.13 **"Exchange Act"** means the Securities and Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.14 **"Involuntary Termination"** means any involuntary discontinuance of a Participant's employment by the Company within two years after a Change in Control, for reasons other than death, Disability or Cause, or any involuntary discontinuance of a Participant's employment by the Company prior to a Change in Control for reasons other than death, Disability or Cause, provided that such termination (A) occurs after the initiation of discussions leading to a Change in Control, but prior to the Change in Control and (B) can be demonstrated to have occurred at the request or initiation of parties to the Change in Control.

2.14 **"Participant"** means an Employee chosen by the Committee to participate in the Plan as provided for in Article 3 herein.

2.15 **"Plan"** means the Flowserve Corporation Executive Officer Change in Control Severance Plan, as set forth herein and as

hereafter amended from time to time.

2.16 **"Termination"** means the date on which an Employee ceases performing services for the Company.

2.17 The masculine pronoun shall be construed to mean the feminine and the singular shall be construed to mean the plural, wherever appropriate herein.

ARTICLE 3. ELIGIBILITY AND PARTICIPATION

3.01 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.

3.02 Participation in the Plan shall be determined from time to time by the Committee; provided that on or after a Change in Control, the Committee may not exclude any Participant from participation in the Plan. Participants shall be notified of their participation in the Plan in writing, and

shall be appraised of the terms of the Plan as soon as is practicable following the Committee's determination.

3.03 No Employee shall at any time have a right to participation in the Plan, despite having previously participated in the Plan.

ARTICLE 4. CHANGE IN CONTROL

4.01 For purposes of the Plan, Change in Control shall mean any Change in Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (excluding any transaction described in Section 4.02 below that is specifically determined thereunder to not constitute a Change in Control).

4.02 Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(A) Any "Person" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than the Company or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (i) the then outstanding common shares of the Company (the "Outstanding Shares") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by a Subsidiary, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i) or (ii) of Article 4.02(C) below are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Securities as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, including any affiliates defined in clauses (A)(ii)(2) or (A)(ii)(3) of this Article 4.02, which, by reducing the number of Outstanding Shares or Voting Securities, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Securities which increases the percentage of the Outstanding Shares or Voting Securities beneficially owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(B) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, Disability, or ineligibility of the director to seek reelection to the Board as a result of term or age limitations, to constitute at least two-thirds ($^{2}/_{3}$) of the Board within any consecutive twenty-four (24) month period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such twenty-four (24) month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds ($^{2}/_{3}$) of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of

proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(C) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Securities, as the case may be, or (ii) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the officers of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the Board of Directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the board of directors of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation and (3) the positions of Chairman of the board of directors, the Chief Executive Officer, and the President of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(D) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such Outstanding Shares and Voting Securities, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds ($^2/_3$) of the members of the board of directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

4.03 Notwithstanding anything to the contrary in this Article 4 and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Article 4. In such circumstances, a Change in

Control will be deemed to have occurred through a vote by two-thirds ($^2/_3$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

ARTICLE 5. PROTECTIONS PROVIDED UPON A CHANGE IN CONTROL

5.01 Except as otherwise provided herein, upon the consummation of a Change in Control as defined in Article 4 of the Plan, all service and other vesting requirements associated with Participants' annual and long-term incentives will be determined in accordance with the provisions of the applicable plans in effect on the date of the Change in Control; provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to all active and incomplete long-term incentive program performance cycles and (B) credit for satisfaction of other service requirements associated with Participants' long-term incentives and compensation deferrals. In the event that such minimum rights are not accorded to participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 5.01 shall prevail.

5.02 The Board may, at its sole election, establish prior to or upon the consummation of a Change in Control a trust or other arrangements for the funding or payment of amounts to which Participants gain full rights pursuant to Article 5.01 above.

5.03 In the event the Board elects to establish a trust or provide for other arrangements pursuant to Article 5.02 herein, no later than the consummation of the Change in Control, such trust or other arrangements shall be established and appropriate monies shall be placed under the control of such trust or other entity overseeing the administration of alternative arrangements.

5.04 In making its election, the Board shall have a fiduciary responsibility to consider the tax consequences to Participants of alternative arrangements, but shall not be required to compensate participants for the tax consequences resulting from the establishment of such arrangements.

ARTICLE 6. PROTECTIONS PROVIDED UPON TERMINATION FOLLOWING A CHANGE IN CONTROL

6.01 Participants terminated in a manner qualifying as a Defined Termination will be entitled to payment of the following:

(A) For services performed through Termination:

(i) base salary, (whether deferred or not), at the Participant's annual base salary rate, (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control;

(ii) amounts (whether deferred or not), if any, with respect to any completed period or periods which have been earned by or awarded to the Participant pursuant to any bonus or incentive compensation plan or arrangement but which has not yet been paid to the Participant; and

(iii) amounts equal to a target bonus or target annual incentive, (whether deferred or not), (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

(B) In lieu of any further base salary, bonus, or incentive compensation payments for periods subsequent to Termination, an amount equal to ***200%*** of the sum of:

(i) the Participant's annual base salary rate, (whether deferred or not), (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control; and

(ii) the Participant's current target bonus or other annual incentive (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

6.02 Each Performance Unit Plan award ("PUP award"), stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in this Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant has full rights, shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum that (A) such awards earned but not paid shall be paid pursuant to the terms of this Plan at a rate as specified by the relevant plan provisions and (B) with respect to stock options or other awards for which Participants must exercise those rights accorded to them by virtue of their holding such award, a period of not less than ninety (90) days following Termination during which Participants may exercise such rights. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 6.02 shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company prior to receipt of payment written instructions not to make a payment for option(s) or other stock-based long-term incentive grants as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.03 Each PUP award, stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant does not have full rights shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to the award or grant which would have otherwise been conveyed to the Participant, without encumbrances, upon the lapse of time, attainment of performance goals, or for other reasons; (B) amounts payable through such rights to awards or grants provided by Article 6.03(A) represent an amount equal to one hundred percent (100%) of the target bonus or amount that otherwise could have been earned and shall not be subject to reduction, adjustment or modification for any reason; and (C) a period of not less than ninety (90) days following Termination during which to exercise rights with respect to stock options or other awards for which Participants must exercise the rights accorded to them by virtue of their holding of the award. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for under Article 6.03(B) hereof shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company, prior to receipt of payment, written instructions not to make a payment for option(s) or other stock-based long-term incentive grant(s) as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.04 The Company shall, at its expense, maintain in full force and effect all life insurance, medical, health and accident plans, programs and arrangements in which each Participant is entitled to participate at the time of Termination, provided that continued participation is possible under the terms of such plans, programs and arrangements. In the event that the terms of any such plan, program or arrangement do not permit continued participation or that any such plan, program or arrangement has been or is discontinued or the benefits thereunder have been or are materially reduced, the Company shall arrange to provide, at a cost to Participants no greater than that prior to Termination, benefits which are substantially similar to those which Participants were entitled to receive under such plan, program or arrangement at the time of the Change in Control. The Company's obligation under this Article 6.04 shall terminate on the ***second (2nd) anniversary*** of Termination, but benefits available under the Consolidated Omnibus Budget Reconciliation Act (COBRA) shall commence on such date. At the end of the applicable period of coverage set forth above, Participants shall have the option to have assigned to them, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company which relates specifically to them.

6.05 In the event that because of their relationship to Participants, members of Participants' families or other individuals are covered by any plan, program, or arrangement described in Article 6.04 above immediately prior to Termination, the provisions set forth in Article 6.04 above shall apply equally to require the continued coverage of such persons; provided, however, that if under the terms of any such plan, program or arrangement, any such person would have ceased to be eligible for coverage during the period in which the Company is obligated to continue coverage, nothing set forth herein shall obligate the Company to continue to provide coverage for such person beyond the date such coverage would have ceased even had Participants remained an Employee of the Company.

6.06 The Company shall pay a supplemental retirement benefit ("Supplemental Pension Benefit") to Participants which is equal to the excess, if any, of (A) the aggregate amount which would have been payable to them monthly under all noncontributory pension and retirement plans, agreements, and other arrangements of the Company had the Participant remained an Employee of the Company at an annual compensation rate pursuant to the sum of the amounts described in Articles 6.01(B)(i) and 6.01(B)(ii) herein until the ***second (2nd) anniversary*** of Termination, over (B) the aggregate amount payable to the Participant monthly under such plans, agreements or arrangements as of Termination had the Participant's employment not been terminated. Calculation of the amounts described in (A) and (B) above shall be made assuming the same form of payment under the defined benefit pension plan of the Company or a successor plan (the "Qualified Plan") in which the Participant participates. Payment of any Supplemental Pension Benefit may be made to the Participant in the same form and at the same time as payment of benefits under the Qualified Plan or in such other manner as may be determined by the Compensation Committee.

6.07 Participants terminated in a manner qualifying as a Defined Termination will be entitled to reimbursement for all legal fees and expenses reasonably incurred in good faith as a result of their Termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Plan).

6.08 Receipt of amounts payable pursuant to this Article 6 is conditioned upon Participants' execution and delivery to the Company of the confidentiality and non-compete agreement delivered to Employees upon notification of their eligibility to participate in the Plan.

6.09 Any amounts paid as a result of this Plan are subject to adjustment to reflect any such arrangement where the Participant agrees to work for the Company or provide future services to the Company, in any form, subsequent to the Participant's termination from the Company as set forth in a consulting arrangement or other employment-related arrangement between the Company and the Participant for a period not to exceed ***one (1) year*** from Termination. The amount of any such adjustment to amounts paid under this Plan shall reflect compensation for services rendered subsequent to the Participant's Termination. The amount of any such adjustment to amounts paid as a result of this Plan shall be as mutually agreed upon in writing by the Participant and the Company prior to Termination.

ARTICLE 7. DETERMINATION AND ADJUSTMENT OF PAYMENTS

7.01 Following a Change in Control of the Company, one or more payments or distributions to be made by the Company to or for the benefit of Participants (whether paid or payable or distributed or distributable pursuant to the terms of this Plan, under some other plan, agreement, arrangement or otherwise) (a "Payment") may be determined to be an "excess parachute payment" that is not deductible by the Company for federal income tax purposes and with respect to which Participants would be subject to an excise tax because of Sections 280G and 4999, respectively, of the Internal Revenue Code (hereinafter referred to respectively as "Section 280G" and "Section 4999"). To the

extent a Payment or portion thereof subjects Participants to an excise tax liability, the Company shall reduce the amount of Payments to the minimum extent necessary so that no portion of any Payment, as so reduced, would result in an excise tax liability on the part of the Participant, unless the net after-tax benefit to the Participant after receipt of additional Payments to offset a specified portion of any excise taxes due on the part of the Participant ("Gross-Up Payments") and payment of any applicable excise taxes due by the Participant pursuant to Section 4999 were to exceed the net after-tax benefit to the Participant were such Gross-Up Payments not made.

7.02 For purposes of this Article 7, "net after-tax benefit" shall mean (A) the total amount of payments and benefits to be paid or provided under this Plan that would constitute "parachute payments" within the meaning of Section 280G, less (2) the total amount of any and all excise taxes imposed on the payments and benefits to be paid or provided to the Participant under (1) above (including any and all penalties and interest with respect to any such excise tax), less (3) the total amount of any and all income and other taxes payable on the foregoing by the Participant, with Participants deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of residence, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

7.03 Payments to Participants terminated in a manner qualifying as a Defined Termination following a Change in Control shall be determined pursuant to the following provisions:

(A) The Company's independent auditor shall make an initial determination whether any Payment would constitute an excess parachute payment and shall communicate its determination, together with detailed supporting calculations, to affected Participants within twenty (20) days after Termination. The Company's determination and calculations will be final and binding upon the Participant unless the Participant notifies the Company within twenty-one (21) days after the Participant receives the Company's determination and calculations that the Participant disputes the same. If, within ten (10) days after the Participant so notifies the Company (or within such longer period as the Participant and the Company may agree), the Company and the Participant are unable to agree upon the determination and calculations, then the Company and the Participant shall, within three (3) days thereafter, choose a nationally recognized accounting firm (the "Accounting Firm") to deliver its determination (and supporting calculations) concerning the matter(s) in dispute. The Accounting Firm's determination shall be delivered to the Company and the Participant within twenty (20) days after such Accounting Firm's appointment and shall be final and binding on all parties. With respect to the Participant's costs incurred in contesting the Company's determination and calculations, if the final determination by the Accounting Firm is more than 2% different from the determination proposed by the Company, then the Company shall pay or reimburse all costs incurred by the Participant with respect to such determination. In all other cases, the Participant shall pay all such costs. All costs incurred by the Company in connection with such determination and contest, and the costs of the Accounting Firm's determination, shall be borne by the Company. The Company and the Participant shall cooperate with each other and the Accounting Firm, and shall provide necessary information so that the Company, the Participant and the Accounting Firm may make all appropriate determinations and calculations.

(B) If it is determined (pursuant to Article 7.03(A) or otherwise) that any Payment may give rise, directly or indirectly, to Participant liability for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax), the Committee shall reduce the amount of payments and benefits to be paid or provided under this Plan to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to Participants, as so reduced, would result in an excise tax liability on the part of

those Participants, but only if, by reason of such reduction, the net after-tax benefit received by the Participant shall exceed the net after-tax benefit received by the Participant if no such reduction was made. In the event any reduction in the amount of payments and benefits pursuant to the foregoing were to result in a reduction in the net after-tax benefit to the Participant, the Company shall make Gross-Up Payments to Participants to offset one-half ($^{1}/2$) of any excise tax due on the part of Participants as a result of Payments. The amount of any such Gross-Up Payments to be made by the Company will be determined without consideration of any federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, or other taxes) which may be due on the part of the Participant as a result of any such Gross-Up Payment. Gross-Up Payments shall be made from time to time and at the same time as any Payment constituting an excess parachute payment is paid or provided to Participants (or as promptly thereafter as is possible).

7.04 If the Internal Revenue Service determines that any payment gives rise, directly or indirectly, to liability on the part of Participants for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax) in excess of the amount, if any, previously determined by the Company or the Accounting Firm (an "Additional Liability"), as the case may be, the Company shall make Gross-Up Payments to Participants not later than the due date of any payment indicated by the Internal Revenue Service with respect to such matters, in such amounts that are necessary to put Participants in the same position, after payment of all federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, or other taxes, and taking into account all such taxes payable with respect to the Gross-Up Payments) and any and all penalties and interest with respect to any such excise tax, as Participants would have been in after payment of all federal, state and local income taxes if the Payments had not given rise to the Additional Liability.

7.05 If the Company desires to contest any determination by the Internal Revenue Service with respect to the amount of excise tax under Section 4999, Participants shall, upon receipt from the Company of an unconditional written undertaking to indemnify and hold Participants harmless (on an after-tax basis) from any and all adverse consequences that might arise from the contesting of that determination, cooperate with the Company in that contest at the Company's sole expense. Nothing in this Article 7.05 shall require Participants to incur any expense other than expenses with respect to which the Company has paid sufficient sums so that after payment of the expense by Participants and taking into account the payment by the Company with respect to that expense and any and all taxes that may be imposed upon Participants as a result of their receipt of that payment, the net effect is no cost to Participants. Nothing in this Article 7.05 shall require Participants to extend the statute of limitations with respect to any item or issue in their tax returns other than, exclusively, the excise tax under Section 4999. If, as a result of the contest of an assertion by the Internal Revenue Service with respect to excise tax under Section 4999, Participants receive a refund of a Section 4999 excise tax previously paid and/or any interest with respect thereto, Participants shall promptly pay to the Company such amount as will leave them, net of the repayment and all tax effects, in the same position, after all taxes and interest, that would have been in if the refunded excise tax had never been paid.

7.06 Pending a final determination of the amount of any Gross-Up Payment payable, Participants shall have the right to require the Company to pay to all or any portion of such amount as preliminarily determined and calculated by the Company. Such payment shall be made by the Company within five (5) days after receipt of notice from the Participant requiring the same.

ARTICLE 8. METHOD OF PAYMENT

8.01 Except as otherwise provided herein, all benefits provided for under this Plan will be paid to Participants terminated in a manner qualifying as a Defined Termination by the Company in a lump sum within thirty (30) days following Participants' Termination.

8.02 Notwithstanding anything in this Plan to the contrary, Participants shall continue to be eligible to receive benefits under the Company's benefit plans for the applicable period as if the Participant remained in the employment of the Company for the period and subject to the provisions of Article 6.04 herein.

8.03 Reimbursement of all legal fees and expenses described in Article 6.07 herein shall be made by the Company in a lump sum within thirty (30) days following Participants' submission of such fees and expenses to the Company.

8.04 In the event a Participant dies before full receipt of benefits payable under the Plan, the remaining benefits will be paid to the legal representative of such Employee's estate in a lump sum as soon as practicable after receipt of notice of such death and evidence satisfactory to the Company of the payment or provision for the payment of any estate, transfer, inheritance or death taxes which may be payable with respect thereto.

8.05 Participants shall not be required to mitigate the amount of any payment provided for under this Plan by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Plan be reduced by any compensation earned by Participants following Termination as the result of employment by another employer or otherwise.

ARTICLE 9. FINANCIAL PROVISIONS

9.01 Except as provided for in Article 5 herein, all benefits payable under this Plan shall be payable and provided for solely from the general assets of the Company in accordance with the Plan, at the time such severance benefits are payable, unless otherwise determined by the Company. The Company shall not be required to, but may in its discretion, establish any special or separate fund or make any other segregation of assets to assure the payment of any severance benefits under the Plan.

9.02 The expenses of establishment and administration of the Plan shall be paid by the Company. Any expenses paid by the Company pursuant to this Article 9 and indemnification under Article 11 shall be subject to reimbursement by Affiliates of the Company of their proportionate shares of such expenses and indemnification, as determined by the Committee in its sole discretion.

ARTICLE 10. ADMINISTRATION OF THE PLAN

10.01 The Committee shall be responsible for the general administration and interpretation of the Plan and the proper execution of its provisions and shall have full discretion to carry out its duties. In addition to the powers of the Committee specified elsewhere in the Plan, the Committee shall have all discretionary powers necessary to discharge its duties under the Plan, including, but not limited to, the following discretionary powers and duties: (A) to interpret or construe the Plan, and resolve ambiguities, inconsistencies and omissions; (B) to make and enforce such rules and regulations and prescribe the use of such forms as it deems necessary or appropriate for the efficient administration of the Plan; and (C) to decide all questions on appeal concerning the Plan and the eligibility of any person to participate in the Plan.

10.02 The determination of the Committee as to any question involving the general administration and interpretation or construction of the Plan shall be within its sole discretion and shall be final, conclusive and binding on all persons, except as otherwise provided herein or by law.

10.03 The Company reserves the right, by action of the Board of Directors or the Committee, to amend or terminate this Plan in whole or in part at any time and from time to time on a prospective basis. The foregoing sentence to the contrary notwithstanding, for a period of three (3) years and one (1) day after the date of a Change in Control, neither the Board, the Incumbent Board, nor the Committee may terminate or amend this Plan in a manner that is detrimental to the rights of any Participant of the Plan without his or her written consent. Prior to a Change in Control, the Company

or the Committee shall give each Participant at least one (1) year's notice before taking any action to amend or terminate the Plan in any way detrimental to the Participant.

ARTICLE 11. LIABILITY AND INDEMNIFICATION

11.01 To the extent permitted by law, no member of the Board shall be liable for any act or omission of an act by him or her in connection with the Plan, unless the member failed to act (1) in good faith and (2) for a purpose which such member reasonably believed to be in accordance with the intent of the Plan. The Company hereby indemnifies each person made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, or against whom any claim or demand is made, by reason of the fact that he, his testator or intestate, was or is a member of the Board, against judgments, fines, amounts paid in settlement and reasonable expenses (including attorney's fees) actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, or as a result of such claim or demand, if such member of the Board acted in good faith for a purpose which he reasonably believed to be in accordance with the intent of the Plan and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful.

11.02 The termination of any such civil or criminal action or proceeding or the disposition of any such claim or demand, by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that any such member of the Board did not act (1) in good faith and (2) for a purpose which he reasonably believed to be in accordance with the intent of the Plan.

11.03 Any indemnification under this Article 11, unless ordered by a court of competent jurisdiction, shall be made by the Company only if authorized in the specific case:

(A) By the Board of Directors acting by a quorum consisting of directors who are not parties to such action, proceeding, claim or demand, upon a finding that the member of the Board has met the standard of conduct set forth in Article 11.01 above; or

(B) If a quorum under Article 11.03(A) above is not obtainable with due diligence: (i) by the Board of Directors upon the opinion in writing of independent legal counsel (who may be counsel to the Company) that indemnification is proper in the circumstances because the standard of conduct set forth in Article 11.01 above has been met by such member of the Board; or (ii) by the shareholders of the Company upon a finding that the member of the Board has met the standard of conduct set forth in such Article 11.01 above.

11.04 Notwithstanding the failure of the Company to provide indemnification in the manner set forth in Article 11.01 above, and despite any contrary resolution of the Board or of the shareholders in the specific case, if the member of the Board has met the standard of conduct set forth in Article 11.01 above, the person made or threatened to be made a party to the action or proceeding or against whom the claim or demand has been made, shall have the legal right to indemnification from the Company as a matter of contract by virtue of this Plan, it being the intention that each such person shall have the right to enforce such right of indemnification against the Company in any court of competent jurisdiction.

11.05 Nothing herein shall be deemed to supercede or conflict with any agreement between a member of the Board and the Company regarding the Company's obligations to indemnify such member from and against certain liabilities arising from the performance of the member's duties. Any such agreement shall govern any inconsistencies with Article 12 of the Plan.

ARTICLE 12. MISCELLANEOUS

12.01 Prior to a Change of Control, nothing contained in the Plan shall be deemed to qualify, limit or alter in any manner the Company's sole and complete authority and discretion to establish,

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regulate, determine or modify at any time, the terms and conditions of employment, including, but not limited to, levels of employment, hours of work, the extent of hiring and employment termination, when and where work shall be done, or any other matter related to the conduct of its business or the manner in which its business is to be maintained or carried on, in the same manner and to the same extent as if the Plan were not in existence.

12.02 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. Except as otherwise provided for herein, the Company expressly reserves the right prior to a Change in Control to dismiss any Participant at any time and for any reason without liability for the effect which such dismissal might have upon him as a participant of the Plan.

12.03 This Plan shall be governed by and construed in accordance with the substantive laws but not the choice of law rules of the state of Texas without giving effect to principles of conflict of laws.

12.04 In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity of such provision shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included herein.

12.05 All notices under this Plan shall be in writing and shall be mailed (postage prepaid by either registered or certified mail) and shall be deemed to have been given upon the date of actual receipt by the recipient party.

IN WITNESS WHEREOF, the Corporation has caused this instrument as amended and restated to be executed effective as of January 1, 2002, except as otherwise stated herein.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

Exhibit 10.47

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.48

FLOWSERVE CORPORATION
KEY MANAGEMENT CHANGE IN CONTROL SEVERANCE PLAN
EFFECTIVE JANUARY 1, 2002

ARTICLE 1. ESTABLISHMENT AND PURPOSE

1.01 Flowserve Corporation, a New York corporation (the "Company" or "Corporation"), hereby establishes this plan to be known as the "Flowserve Corporation ***Key Management*** Change in Control Severance Plan" (the "Plan") as set forth in this document.

1.02 The Company may from time-to-time become involved in possible Change in Control situations. Should this occur, in addition to their regular duties, Employees may be called upon to assist in the assessment of any third-party or internal proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its shareholders, participate in successfully completing such transactions and take such other actions as the Board might determine appropriate.

1.03 This Plan has been established for the purpose of assuring that the Company will have the continued dedication of the Participants, and the availability of Participants' advice and counsel as to the best interests of the Company and its shareholders, notwithstanding the possibility, threat, or occurrence of a Change in Control, and to induce Participants to remain in the employ of the Company through the provision of certain protections in the event of a qualifying Change in Control.

1.04 As approved by the Compensation Committee, the Plan shall become effective as of January 1, 2002 and shall remain in effect until terminated by the Committee.

ARTICLE 2. DEFINITIONS

2.01 **"Affiliate" or "Subsidiary"** means any corporation which is a member of a controlled group of corporations (determined in accordance with Section 414(b) of the Code) of which the Company is a member and any other trade or business (whether or not incorporated) which is controlled by, or under common control (determined in accordance with Section 414(c) of the Code) with the Company.

2.02 **"Board" or "Board of Directors"** means the Board of Directors of the Company.

2.03 **"Cause"** means: (A) the willful and continued failure by a Participant to substantially perform his duties with the Company (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 Participant by the Board which specifically identifies the manner in which the Board believes that he has not substantially performed his duties, or (B) the willful engaging by the Participant in conduct materially and demonstrably injurious to the Company, monetarily or otherwise; provided, however, that if the Participant 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 Participant's sole judgment, the action or omission was done, or omitted to be done, in good faith and with a reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Participant shall not be deemed to have terminated for Cause unless and until there shall have been delivered to him 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, or, if after a Change in Control, the Incumbent Board, at a meeting of the Board or Incumbent Board, as appropriate, called and held for the purpose (after reasonable notice to the Participant and an opportunity for the Participant, together with counsel, to be heard before the Board or 2.04 Incumbent Board, as appropriate), finding that in the good faith opinion of the Board or Incumbent Board the Participant was guilty of conduct set forth above in clause (A) or (B) of this Article 2.03, and specifying the particulars thereof in detail.

2.05 **"Change in Control"** means any change in control as described in Article 4 herein.

2.06 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.07 **"Company" or "Corporation"** means Flowserve Corporation, a New York corporation, its successors and assigns and Affiliates or Subsidiaries of the Company.

2.08 **"Compensation Committee"** or **"Committee"** means the Compensation Committee established and appointed by the Board of Directors.

2.09 **"Constructive Termination"** means the termination of a Participant's employment with the Company within two (2) years after a Change in Control, after the occurrence of any or all of the following without the express written consent of the Participant:

(A) The assignment to the Participant of any duties inconsistent with his position, duties, responsibilities and status with the

Company immediately prior to a Change in Control, or a change in his reporting responsibilities, titles or offices as in effect immediately prior to a Change in Control, or any removal of the Participant from or any failure to re-elect the Participant to any of such positions, except in connection with the termination of his employment for Cause, death or Disability or termination of employment by the Participant for reasons other than Constructive Termination;

(B) A reduction by the Company of:

(i) the Participant's base salary rate, (whether deferred or not), based on the annualized base salary rate measured during the twelve (12) months of the year preceding the date of a Change in Control; or

(ii) the target bonus payable to the Participant, calculated as the average percentage of the Participant's base salary represented by target bonuses for the three (3) years (or, if shorter, the years of the Participant's employment with the Company) immediately preceding the year in which a Change in Control occurs as percentages of his base salaries in each of such three (3) years (or shorter number of years), multiplied by the base salary rate determined pursuant to Article 2.08(B)(i) above.

(C) The Company's requiring the Participant to be based anywhere other than either the Company's offices at which he was based immediately prior to a Change in Control or the Company's offices which are no more than thirty-five (35) miles from the offices at which the Participant was based immediately prior to a Change in Control, except for required travel on the Company's business to an extent substantially consistent with his business travel obligations immediately prior to the Change in Control (excluding, however, any travel obligations prior to the Change in Control that are associated with or caused by the Change in Control events or circumstances), or, in the event the Participant consents to any relocation beyond such thirty-five (35) mile radius, the failure by the Company to pay (or reimburse the Participant) for all reasonable moving expenses incurred by him relating to a change of his principal residence in connection with such relocation and to indemnify the Participant against any loss (defined as the difference between the actual sale price of such residence minus any customary transaction costs and the higher of (i) his aggregate investment in such residence or (ii) the fair market value of such residence as determined by a real estate appraiser designated by the Participant and reasonably satisfactory to the Company) realized on the sale of the Participant's principal residence in connection with any such change in residence;

(D) The failure by the Company to continue in effect any benefit or compensation plan (including but not limited to any stock option plan, pension plan, deferred compensation plan, life insurance plan, health and accident plan or disability plan) in which the Participant is participating at the time of a Change in Control (or plans providing substantially similar benefits), the taking of any action by the Company which would adversely affect the Participant's participation in, payment from, or materially reduce his benefits under any of

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such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Company to provide the Participant with the number of days of paid time off to which he is then entitled in accordance with the Company's normal paid time off and/or vacation policy in effect immediately prior to the Change in Control;

(E) Any failure by the Company to obtain the assumption of, or the agreement to perform, this Plan by any successor; or

(F) Any other material failure of the Company otherwise to honor all the terms and provisions of this Plan.

2.10 **"Defined Termination"** means a termination of employment of an Employee as a result of either (A) an Involuntary Termination or (B) a Constructive Termination.

2.11 **"Disability"** means a long-term disability as defined in and meeting the terms and conditions of the Flowserve Corporation Long-Term Disability Plan, as amended, or any successor plans.

2.12 **"Employee"** means any person paid through the payroll department of the Company (as opposed to the accounts payable department of the Company) and who receives from the Company an annual IRS Form W-2; 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, nor the employees of any such person, regardless of whether that person (including his or her employees) is later found to be an employee by any court of law or regulatory authority.

2.13 **"Exchange Act"** means the Securities and Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.14 **"Involuntary Termination"** means any involuntary discontinuance of a Participant's employment by the Company within two years after a Change in Control, for reasons other than death, Disability or Cause, or any involuntary discontinuance of a Participant's employment by the Company prior to a Change in Control for reasons other than death, Disability or Cause, provided that such termination (A) occurs after the initiation of discussions leading to a Change in Control, but prior to the Change in Control and (B) can be demonstrated to have occurred at the request or initiation of parties to the Change in Control.

2.14 **"Participant"** means an Employee chosen by the Committee to participate in the Plan as provided for in Article 3 herein.

2.15 **"Plan"** means the Flowserve Corporation Executive Officer Change in Control Severance Plan, as set forth herein and as

hereafter amended from time to time.

2.16 **"Termination"** means the date on which an Employee ceases performing services for the Company.

2.17 The masculine pronoun shall be construed to mean the feminine and the singular shall be construed to mean the plural, wherever appropriate herein.

ARTICLE 3. ELIGIBILITY AND PARTICIPATION

3.01 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.

3.02 Participation in the Plan shall be determined from time to time by the Committee; provided that on or after a Change in Control, the Committee may not exclude any Participant from participation in the Plan. Participants shall be notified of their participation in the Plan in writing, and

shall be appraised of the terms of the Plan as soon as is practicable following the Committee's determination.

3.03 No Employee shall at any time have a right to participation in the Plan, despite having previously participated in the Plan.

ARTICLE 4. CHANGE IN CONTROL

4.01 For purposes of the Plan, Change in Control shall mean any Change in Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (excluding any transaction described in Section 4.02 below that is specifically determined thereunder to not constitute a Change in Control).

4.02 Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(A) Any "Person" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than the Company or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (i) the then outstanding common shares of the Company (the "Outstanding Shares") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by a Subsidiary, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i) or (ii) of Article 4.02(C) below are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Securities as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, including any affiliates defined in clauses (A)(ii)(2) or (A)(ii)(3) of this Article 4.02, which, by reducing the number of Outstanding Shares or Voting Securities, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Securities which increases the percentage of the Outstanding Shares or Voting Securities beneficially owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(B) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, Disability, or ineligibility of the director to seek reelection to the Board as a result of term or age limitations, to constitute at least two-thirds ($^2/_3$) of the Board within any consecutive twenty-four month period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such twenty-four (24) month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds ($^2/_3$) of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of

proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(C) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Securities, as the case may be, or (ii) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^{3}/_{4}$) of the officers of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the board of directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^{3}/_{4}$) of the board of directors of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation and (3) the positions of Chairman of the Board of Directors, the Chief Executive Officer, and the President of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(D) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such Outstanding Shares and Voting Securities, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds ($^{2}/_{3}$) of the members of the board of directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

4.03 Notwithstanding anything to the contrary in this Article 4 and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Article 4. In such circumstances, a Change in

Control will be deemed to have occurred through a vote by two-thirds ($^{2}/_{3}$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

ARTICLE 5. PROTECTIONS PROVIDED UPON A CHANGE IN CONTROL

5.01 Except as otherwise provided herein, upon the consummation of a Change in Control as defined in Article 4 of the Plan, all service and other vesting requirements associated with Participants' annual and long-term incentives will be determined in accordance with the provisions of the applicable plans in effect on the date of the Change in Control; provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to all active and incomplete long-term incentive program performance cycles and (B) credit for satisfaction of other service requirements associated with Participants' long-term incentives and compensation deferrals. In the event that such minimum rights are not accorded to participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 5.01 shall prevail.

5.02 The Board may, at its sole election, establish prior to or upon the consummation of a Change in Control a trust or other arrangements for the funding or payment of amounts to which Participants gain full rights pursuant to Article 5.01 above.

5.03 In the event the Board elects to establish a trust or provide for other arrangements pursuant to Article 5.02 herein, no later than the consummation of the Change in Control, such trust or other arrangements shall be established and appropriate monies shall be placed under the control of such trust or other entity overseeing the administration of alternative arrangements.

5.04 In making its election, the Board shall have a fiduciary responsibility to consider the tax consequences to Participants of alternative arrangements, but shall not be required to compensate participants for the tax consequences resulting from the establishment of such arrangements.

ARTICLE 6. PROTECTIONS PROVIDED UPON TERMINATION FOLLOWING A CHANGE IN CONTROL

6.01 Participants terminated in a manner qualifying as a Defined Termination will be entitled to payment of the following:

(A) For services performed through Termination:

(i) base salary, (whether deferred or not), at the Participant's annual base salary rate, (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control;

(ii) amounts (whether deferred or not), if any, with respect to any completed period or periods which have been earned by or awarded to the Participant pursuant to any bonus or incentive compensation plan or arrangement but which has not yet been paid to the Participant; and

(iii) amounts equal to a target bonus or target annual incentive, (whether deferred or not), (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

(B) In lieu of any further base salary, bonus, or incentive compensation payments for periods subsequent to Termination, an amount equal to ***150%*** of the sum of:

(i) the Participant's annual base salary rate, (whether deferred or not), (1) as based on the highest annualized monthly base salary rate measured during the twelve (12) months of the year preceding Termination or (2) if higher, in effect at the time of Termination or (3) if higher, in effect on the date of the Change in Control; and

(ii) the Participant's current target bonus or other annual incentive (1) in effect at the time of Termination or (2) if higher, in effect on the date of the Change in Control.

6.02 Each Performance Unit Plan award ("PUP award"), stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in this Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant has full rights, shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum that (A) such awards earned but not paid shall be paid pursuant to the terms of this Plan at a rate as specified by the relevant plan provisions and (B) with respect to stock options or other awards for which Participants must exercise those rights accorded to them by virtue of their holding such award, a period of not less than ninety (90) days following Termination during which Participants may exercise such rights. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for in this Article 6.02 shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company prior to receipt of payment written instructions not to make a payment for option(s) or other stock-based long-term incentive grants as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.03 Each PUP award, stock option or other stock-based long-term incentive grant made to Participants, and not otherwise addressed in Article 6, under a plan adopted or assumed by the Company which is then outstanding and to which the Participant does not have full rights shall be treated in accordance with the provisions of the applicable plans in effect at the time of Termination, provided that protections provided for under each of the applicable plans in effect on the date of the Change in Control provide at a minimum (A) full vesting of rights to the award or grant which would have otherwise been conveyed to the Participant, without encumbrances, upon the lapse of time, attainment of performance goals, or for other reasons; (B) amounts payable through such rights to awards or grants provided by Article 6.03(A) represent an amount equal to one hundred percent (100%) of the target bonus or amount that otherwise could have been earned and shall not be subject to reduction, adjustment or modification for any reason; and (C) a period of not less than ninety (90) days following Termination during which to exercise rights with respect to stock options or other awards for which Participants must exercise the rights accorded to them by virtue of their holding of the award. In the event that such minimum rights are not accorded to Participants determined in accordance with the provisions of the applicable plans, the minimum requirements provided for under Article 6.03(B) hereof shall prevail. Notwithstanding the foregoing, if a Participant gives to the Company, prior to receipt of payment, written instructions not to make a payment for option(s) or other stock-based long-term incentive grant(s) as provided herein, such option(s) and grant(s) shall remain in effect in accordance with its (their) terms.

6.04 The Company shall, at its expense, maintain in full force and effect all life insurance, medical, health and accident plans, programs and arrangements in which each Participant is entitled to participate at the time of Termination, provided that continued participation is possible under the terms of such plans, programs and arrangements. In the event that the terms of any such plan, program or arrangement do not permit continued participation or that any such plan, program or arrangement has been or is discontinued or the benefits thereunder have been or are materially reduced, the Company shall arrange to provide, at a cost to Participants no greater than that prior to Termination, benefits which are substantially similar to those which Participants were entitled to receive under such plan, program or arrangement at the time of the Change in Control. The Company's obligation under this Article 6.04 shall terminate ***eighteen (18) months after*** Termination, but benefits available under the Consolidated Omnibus Budget Reconciliation Act (COBRA) shall commence on such date. At the end of the applicable period of coverage set forth above, Participants shall have the option to have assigned to them, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company which relates specifically to them.

6.05 In the event that because of their relationship to Participants, members of Participants' families or other individuals are covered by any plan, program, or arrangement described in Article 6.04 above immediately prior to Termination, the provisions set forth in Article 6.04 above shall apply equally to require the continued coverage of such persons; provided, however, that if under the terms of any such plan, program or arrangement, any such person would have ceased to be eligible for coverage during the period in which the Company is obligated to continue coverage, nothing set forth herein shall obligate the Company to continue to provide coverage for such person beyond the date such coverage would have ceased even had Participants remained an Employee of the Company.

6.06 The Company shall pay a supplemental retirement benefit ("Supplemental Pension Benefit") to Participants which is equal to the excess, if any, of (A) the aggregate amount which would have been payable to them monthly under all noncontributory pension and retirement plans, agreements, and other arrangements of the Company had the Participant remained an Employee of the Company at an annual compensation rate pursuant to the sum of the amounts described in Articles 6.01(B)(i) and 6.01(B)(ii) herein until ***eighteen (18) months after*** Termination, over (B) the aggregate amount payable to the Participant monthly under such plans, agreements or arrangements as of Termination had the Participant's employment not been terminated. Calculation of the amounts described in (A) and (B) above shall be made assuming the same form of payment under the defined benefit pension plan of the Company or a successor plan (the "Qualified Plan") in which the Participant participates. Payment of any Supplemental Pension Benefit may be made to the Participant in the same form and at the same time as payment of benefits under the Qualified Plan or in such other manner as may be determined by the Compensation Committee.

6.07 Participants terminated in a manner qualifying as a Defined Termination will be entitled to reimbursement for all legal fees and expenses reasonably incurred in good faith as a result of their Termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Plan).

6.08 Receipt of amounts payable pursuant to this Article 6 is conditioned upon Participants' execution and delivery to the Company of the confidentiality and non-compete agreement delivered to Employees upon notification of their eligibility to participate in the Plan.

ARTICLE 7. DETERMINATION AND ADJUSTMENT OF PAYMENTS

7.01 Following a Change in Control of the Company, one or more payments or distributions to be made by the Company to or for the benefit of Participants (whether paid or payable or distributed or distributable pursuant to the terms of this Plan, under some other plan, agreement, arrangement or otherwise) (a "Payment") may be determined to be an "excess parachute payment" that is not deductible by the Company for federal income tax purposes and with respect to which Participants would be subject to an excise tax because of Sections 280G and 4999, respectively, of the Internal Revenue Code (hereinafter referred to respectively as "Section 280G" and "Section 4999"). To the extent a Payment or portion thereof subjects Participants to an excise tax liability, the Company shall reduce the amount of Payments to the minimum extent necessary so that no portion of any Payment, as so reduced, would result in an excise tax liability on the part of the Participant, unless the net after-tax benefit to the Participant after receipt of additional Payments to offset a specified portion of any excise taxes due on the part of the Participant ("Gross-Up Payments") and payment of any applicable excise taxes due by the Participant pursuant to Section 4999 were to exceed the net after-tax benefit to the Participant were such Gross-Up Payments not made.

7.02 For purposes of this Article 7, "net after-tax benefit" shall mean (A) the total amount of payments and benefits to be paid or provided under this Plan that would constitute "parachute

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payments" within the meaning of Section 280G, less (2) the total amount of any and all excise taxes imposed on the payments and benefits to be paid or provided to the Participant under (1) above (including any and all penalties and interest with respect to any such excise tax), less (3) the total amount of any and all income and other taxes payable on the foregoing by the Participant, with Participants deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of residence, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

7.03 Payments to Participants terminated in a manner qualifying as a Defined Termination following a Change in Control shall be determined pursuant to the following provisions:

(A) The Company's independent auditor shall make an initial determination whether any Payment would constitute an excess parachute payment and shall communicate its determination, together with detailed supporting calculations, to affected Participants within twenty (20) days after Termination. The Company's determination and calculations will be final and binding upon the Participant unless the Participant notifies the Company within twenty-one (21) days after the Participant receives the Company's determination and calculations that the Participant disputes the same. If, within ten (10) days after the Participant so notifies the Company (or within such longer period as the Participant and the Company may agree), the Company and the Participant are unable to agree upon the determination and calculations, then the Company and the Participant shall, within three (3) days thereafter, choose a nationally recognized accounting firm (the "Accounting Firm") to deliver its determination (and supporting calculations) concerning the matter(s) in dispute. The Accounting Firm's determination shall be delivered to the Company and the Participant within twenty (20) days after such Accounting Firm's appointment and shall be final and binding on all parties. With respect to the Participant's costs incurred in contesting the Company's determination and calculations, if the final determination by the Accounting Firm is more than 2% different from the determination proposed by the Company, then the Company shall pay or reimburse all costs incurred by the Participant with respect to such determination. In all other cases, the Participant shall pay all such costs. All costs incurred by the Company in connection with such determination and contest, and the costs of the Accounting Firm's determination, shall be borne by the Company. The Company and the Participant shall cooperate with each other and the Accounting Firm, and shall provide necessary information so that the Company, the Participant and the Accounting Firm may make all appropriate determinations and calculations.

(B) If it is determined (pursuant to Article 7.03(A) or otherwise) that any Payment may give rise, directly or indirectly, to Participant liability for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax), the Committee shall reduce the amount of payments and benefits to be paid or provided under this Plan to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to Participants, as so reduced, would result in an excise tax liability on the part of those Participants, but only if, by reason of such reduction, the net after-tax benefit received by the Participant shall exceed the net after-tax benefit received by the Participant if no such reduction was made. In the event any reduction in the amount of payments and benefits pursuant to the foregoing were to result in a reduction in the net after-tax benefit to the Participant, the Company shall make Gross-Up Payments to Participants to offset one-half ($^1/_2$) of any excise tax due on the part of Participants as a result of Payments. The amount of any such Gross-Up Payments to be made by the Company will be determined without consideration of any federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, or other taxes) which may be due on the part of the Participant as

a result of any such Gross-Up Payment. Gross-Up Payments shall be made from time to time and at the same time as any Payment constituting an excess parachute payment is paid or provided to Participants (or as promptly thereafter as is possible).

7.04 If the Internal Revenue Service determines that any payment gives rise, directly or indirectly, to liability on the part of Participants for excise tax under Section 4999 (and/or any penalties and/or interest with respect to any such excise tax) in excess of the amount, if any, previously determined by the Company or the Accounting Firm (an "Additional Liability"), as the case may be, the Company shall make Gross-Up Payments to Participants not later than the due date of any payment indicated by the Internal Revenue Service with respect to such matters, in such amounts that are necessary to put Participants in the same position, after payment of all federal, state and local taxes (whether income taxes, excise taxes under Section 4999 or otherwise, or other taxes, and taking into account all such taxes payable with respect to the Gross-Up Payments) and any and all penalties and interest with respect to any such excise tax, as Participants would have been in after payment of all federal, state and local income taxes if the Payments had not given rise to the Additional Liability.

7.05 If the Company desires to contest any determination by the Internal Revenue Service with respect to the amount of excise tax under Section 4999, Participants shall, upon receipt from the Company of an unconditional written undertaking to indemnify and hold Participants harmless (on an after-tax basis) from any and all adverse consequences that might arise from the contesting of that determination, cooperate with the Company in that contest at the Company's sole expense. Nothing in this Article 7.05 shall require Participants to incur any expense other than expenses with respect to which the Company has paid sufficient sums so that after payment of the expense by Participants and taking into account the payment by the Company with respect to that expense and any and all taxes that may be imposed upon Participants as a result of their receipt of that payment, the net effect is no cost to Participants. Nothing in this Article 7.05 shall require Participants to extend the statute of limitations with respect to any item or issue in their tax returns other than, exclusively, the excise tax under Section 4999. If, as a result of the contest of an assertion by the Internal Revenue Service with respect to excise tax under Section 4999, Participants receive a refund of a Section 4999 excise tax previously paid and/or any interest with respect thereto, Participants shall promptly pay to the Company such amount as will leave them, net of the repayment and all tax effects, in the same position, after all taxes and interest, that would have been in if the refunded excise tax had never been paid.

7.06 Pending a final determination of the amount of any Gross-Up Payment payable, Participants shall have the right to require the Company to pay to all or any portion of such amount as preliminarily determined and calculated by the Company. Such payment shall be made by the Company within five (5) days after receipt of notice from the Participant requiring the same.

ARTICLE 8. METHOD OF PAYMENT

8.01 Except as otherwise provided herein, all benefits provided for under this Plan will be paid to Participants terminated in a manner qualifying as a Defined Termination by the Company in a lump sum within thirty (30) days following Participants' Termination.

8.02 Notwithstanding anything in this Plan to the contrary, Participants shall continue to be eligible to receive benefits under the Company's benefit plans for the applicable period as if the Participant remained in the employment of the Company for the period and subject to the provisions of Article 6.04 herein.

8.03 Reimbursement of all legal fees and expenses described in Article 6.07 herein shall be made by the Company in a lump sum within thirty (30) days following Participants' submission of such fees and expenses to the Company.

8.04 In the event a Participant dies before full receipt of benefits payable under the Plan, the remaining benefits will be paid to the legal representative of such Employee's estate in a lump sum as soon as practicable after receipt of notice of such death and evidence satisfactory to the Company of the payment or provision for the payment of any estate, transfer, inheritance or death taxes which may be payable with respect thereto.

8.05 Participants shall not be required to mitigate the amount of any payment provided for under this Plan by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Plan be reduced by any compensation earned by Participants following Termination as the result of employment by another employer or otherwise.

ARTICLE 9. FINANCIAL PROVISIONS

9.01 Except as provided for in Article 5 herein, all benefits payable under this Plan shall be payable and provided for solely from the general assets of the Company in accordance with the Plan, at the time such severance benefits are payable, unless otherwise determined by the Company. The Company shall not be required to, but may in its discretion, establish any special or separate fund or make any other segregation of assets to assure the payment of any severance benefits under the Plan.

9.02 The expenses of establishment and administration of the Plan shall be paid by the Company. Any expenses paid by the Company pursuant to this Article 9 and indemnification under Article 11 shall be subject to reimbursement by Affiliates of the Company of their proportionate shares of such expenses and indemnification, as determined by the Committee in its sole discretion.

ARTICLE 10. ADMINISTRATION OF THE PLAN

10.01 The Committee shall be responsible for the general administration and interpretation of the Plan and the proper execution of its provisions and shall have full discretion to carry out its duties. In addition to the powers of the Committee specified elsewhere in the Plan, the Committee shall have all discretionary powers necessary to discharge its duties under the Plan, including, but not limited to, the following discretionary powers and duties: (A) to interpret or construe the Plan, and resolve ambiguities, inconsistencies and omissions; (B) to make and enforce such rules and regulations and prescribe the use of such forms as it deems necessary or appropriate for the efficient administration of the Plan; and (C) to decide all questions on appeal concerning the Plan and the eligibility of any person to participate in the Plan.

10.02 The determination of the Committee as to any question involving the general administration and interpretation or construction of the Plan shall be within its sole discretion and shall be final, conclusive and binding on all persons, except as otherwise provided herein or by law.

10.03 The Company reserves the right, by action of the Board of Directors or the Committee, to amend or terminate this Plan in whole or in part at any time and from time to time on a prospective basis. The foregoing sentence to the contrary notwithstanding, for a period of three (3) years and one (1) day after the date of a Change in Control, neither the Board, the Incumbent Board, nor the Committee may terminate or amend this Plan in a manner that is detrimental to the rights of any Participant of the Plan without his or her written consent. Prior to a Change in Control, the Company or the Committee shall give each Participant at least one (1) year's notice before taking any action to amend or terminate the Plan in any way detrimental to the Participant.

ARTICLE 11. LIABILITY AND INDEMNIFICATION

11.01 To the extent permitted by law, no member of the Board shall be liable for any act or omission of an act by him or her in connection with the Plan, unless the member failed to act (1) in good faith and (2) for a purpose which such member reasonably believed to be in accordance with the

intent of the Plan. The Company hereby indemnifies each person made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, or against whom any claim or demand is made, by reason of the fact that he, his testator or intestate, was or is a member of the Board, against judgments, fines, amounts paid in settlement and reasonable expenses (including attorney's fees) actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, or as a result of such claim or demand, if such member of the Board acted in good faith for a purpose which he reasonably believed to be in accordance with the intent of the Plan and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful.

11.02 The termination of any such civil or criminal action or proceeding or the disposition of any such claim or demand, by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that any such member of the Board did not act (1) in good faith and (2) for a purpose which he reasonably believed to be in accordance with the intent of the Plan.

11.03 Any indemnification under this Article 11, unless ordered by a court of competent jurisdiction, shall be made by the Company only if authorized in the specific case:

(A) By the Board of Directors acting by a quorum consisting of directors who are not parties to such action, proceeding, claim or demand, upon a finding that the member of the Board has met the standard of conduct set forth in Article 11.01 above; or

(B) If a quorum under Article 11.03(A) above is not obtainable with due diligence: (i) by the Board of Directors upon the opinion in writing of independent legal counsel (who may be counsel to the Company) that indemnification is proper in the circumstances because the standard of conduct set forth in Article 11.01 above has been met by such member of the Board; or (ii) by the shareholders of the Company upon a finding that the member of the Board has met the standard of conduct set forth in such Article 11.01 above.

11.04 Notwithstanding the failure of the Company to provide indemnification in the manner set forth in Article 11.01 above, and despite any contrary resolution of the Board or of the shareholders in the specific case, if the member of the Board has met the standard of conduct set forth in Article 11.01 above, the person made or threatened to be made a party to the action or proceeding or against whom the claim or demand has been made, shall have the legal right to indemnification from the Company as a matter of contract by virtue of this Plan, it being the intention that each such person shall have the right to enforce such right of indemnification against the Company in any court of competent jurisdiction.

11.05 Nothing herein shall be deemed to supercede or conflict with any agreement between a member of the Board and the Company regarding the Company's obligations to indemnify such member from and against certain liabilities arising from the performance of the member's duties. Any such agreement shall govern any inconsistencies with Article 12 of the Plan.

ARTICLE 12. MISCELLANEOUS

12.01 Prior to a Change of Control, nothing contained in the Plan shall be deemed to qualify, limit or alter in any manner the Company's sole and complete authority and discretion to establish, regulate, determine or modify at any time, the terms and conditions of employment, including, but not limited to, levels of employment, hours of work, the extent of hiring and employment termination, when and where work shall be done, or any other matter related to the conduct of its business or the manner in which its business is to be maintained or carried on, in the same manner and to the same extent as if the Plan were not in existence.

12.02 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

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benefits provided for by the Plan. Except as otherwise provided for herein, the Company expressly reserves the right prior to a Change in Control to dismiss any Participant at any time and for any reason without liability for the effect which such dismissal might have upon him as a participant of the Plan.

12.03 This Plan shall be governed by and construed in accordance with the substantive laws but not the choice of law rules of the state of Texas without giving effect to principles of conflict of laws.

12.04 In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity of such provision shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included herein.

12.05 All notices under this Plan shall be in writing and shall be mailed (postage prepaid by either registered or certified mail) and shall be deemed to have been given upon the date of actual receipt by the recipient party.

IN WITNESS WHEREOF, the Corporation has caused this instrument as amended and restated to be executed effective as of January 1, 2002, except as otherwise stated herein.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

QuickLinks

[Exhibit 10.48]

[FLOWSERVE CORPORATION KEY MANAGEMENT CHANGE IN CONTROL SEVERANCE PLAN EFFECTIVE JANUARY 1, 2002]

Exhibit 10.49

AMENDMENT NO. 1
TO
FLOWSERVE CORPORATION
FLEX HEALTH AND WELFARE PLAN

WHEREAS, Flowserve Corporation ("Corporation") maintains the Flowserve Corporation Flex Health and Welfare Plan, as amended and restated effective as of January 1, 2001;

WHEREAS, The Corporation retains the right to amend the Plan pursuant to Section 6.1 thereof; and

WHEREAS, the Corporation desires to amend the Plan in order to revise certain procedures in Section 5.1 (Claims Procedure) for disability benefits claims.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 5.1 is hereby amended, effective as of January 1, 2001, by restating such Section in its entirety to read as follows:

(a) Except as provided in subsection (b), a claim for benefits under a Welfare Program shall be submitted in accordance with and to the party designated under the terms of such Welfare Program. Notwithstanding the foregoing, unless a Welfare Program specifically provides otherwise, a claim for benefits must be submitted not later than twelve (12) months after the date that the claim arises (for example, the date a medical service is provided and the charge is incurred). Furthermore a submitted claim shall not be treated as having been filed until all information necessary to process the claim is submitted. In the event that a claim, as originally submitted, is not complete, the claimant shall be notified and the claimant shall then have the responsibility for providing the missing information. If all information necessary to process a claim is not submitted by the applicable claim filing deadline, the claim shall automatically be deemed to be denied.

(b) In the event that a Welfare Program does not prescribe a claims procedure for benefits that satisfies the requirements of Section 503 of ERISA, the claims procedure described below shall apply.

(1) Initial Claim Process. A claim and all required documentation shall be filed in writing with the Plan Administrator and decided within ninety (90) days (forty five (45) days for a disability claim) by the Plan Administrator, unless special circumstances require an extension of up to ninety (90) additional days (thirty (30) additional days for a disability claim). Written notice of the decision on such claim shall be furnished promptly to the claimant and shall be written in a manner calculated to be understood by the claimant and shall:

(A) set forth an explanation of the specific findings and conclusions upon which such denial is based, making reference to the pertinent provisions of the Plan or Welfare Program documents;

(B) describe any additional information or material needed to support the claim and explain why such information or material, if any, is necessary; and

(C) describe the claims review procedures in subsection (2). A copy of any internal rule, guideline, protocol or other similar criteria relied upon in making the adverse determination shall be provided without charge upon request.

(2) Claims Review Process. In the event a claim for benefits is denied, or if the claimant has had no response to such claim within ninety (90) days (forty five (45) days for a disability claim) of its submission (in which case the claim for benefits shall be deemed to have been denied), the claimant or his duly authorized representative may request a review by the Plan Administrator of such decision denying the claim at the claimant's sole expense.

(A) Any such request must be filed in writing with the Plan Administrator within sixty (60) days (one hundred eighty (180) days for a disability claim) after receipt by the claimant of written notice of the decision or the date such claim is deemed to be denied. Such written request for review shall contain all additional information that the claimant wishes the Plan Administrator to consider.

(B) In pursuing this review, the claimant or his duly authorized representative:

(i) may review pertinent documents; and

(ii) may submit issues and comments in writing.

Written notice of the decision on review shall be furnished to the claimant within sixty (60) days (forty five (45) days for a disability claim), unless special circumstances require an extension of up to sixty (60) days (forty five (45) days for a disability claim) following the receipt of the request for review. The written notice of the Plan Administrator's decision shall be written in a manner calculated to be understood by the claimant and include specific reasons for the decision and shall refer to the pertinent provisions of the Plan or Welfare Program on which the decision is based. If the decision on review is not furnished within the time specified above, the claim shall be deemed to be denied on review."

2. Except as provided above, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Corporation has caused this instrument as amended and restated to be executed effective as of January 1, 2001, except as otherwise stated herein.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

QuickLinks

Exhibit 10.49

AMENDMENT NO. 1 TO FLOWSERVE CORPORATION FLEX HEALTH AND WELFARE PLAN

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Exhibit 10.50

AMENDMENT NO. 1
TO THE FLOWSERVE CORPORATION
DEFERRED COMPENSATION PLAN
AS AMENDED AND RESTATED
EFFECTIVE JUNE 1, 2000

Article IV, Section 4.01, sub-titled Participation, of the Flowserve Corporation Deferred Compensation Plan (the "Plan") is hereby amended to read in its entirety as follows:

> SECTION 4.01 PARTICIPATION. Participation in the Plan shall be limited to executives who (i) meet such eligibility criteria as the Pension and Investment Committee shall establish from time to time, and (ii) elect to participate in this Plan by filing a Participation Agreement with the Administrative Committee. A Participation Agreement must be filed prior to the December 31st immediately preceding the Plan Year for which it is effective for Base Salary Deferrals and for Incentive Deferrals. The Administrative Committee shall have the discretion to establish special deadlines regarding the filing of Participation Agreements for Participants.

Except as provided above, the remainder of the Plan shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the Corporation has caused this instrument to be executed effective as of December 1, 2002.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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Exhibit 10.51

FLOWSERVE CORPORATION

2002 RESTRICTED STOCK UNIT PLAN

ARTICLE 1. GENERAL PROVISIONS

Section 1. Purpose

The purpose of the Flowserve Corporation 2002 Restricted Stock Unit Plan (the "Plan") is to provide certain compensation to eligible directors and employees in the form of Share Units which either are restricted for a period of time or are subject to satisfaction of certain performance related goals in accordance with the terms and conditions set forth below. The Plan is designed to encourage the continued high level of performance of such directors and employees by increasing the identity of interest of such directors and employees with the shareholders of the Company. The Plan is intended to be an unfunded program established for the purpose of providing compensation for eligible directors and a select group of management employees.

Section 2. Definitions

For purposes of the Plan, the following terms shall have the following meanings:

(a) "Board of Directors" means the board of directors of the Company.

(b) "Change in Control" means the occurrence of any of the following: (i) any "person" or "group" within the meaning of Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act"), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act) of 20% or more of the then outstanding voting Shares of the Company, or (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors (and any new director whose election by the Board of Directors or whose nomination for election by the Company's shareholders was approved by a vote for at least two-thirds ($^2/_3$) of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof, or (iii) any merger or consolidation of the Company into or with another corporation (other than a corporation controlled by the Company immediately prior to such merger or consolidation), if the Company will not be the surviving corporation or will become a subsidiary of another corporation, or any sale of all or substantially all the assets of the Company.

(c) "Committee" means the Compensation Committee of the Board of Directors.

(d) "Company" means Flowserve Corporation, a New York corporation and its successors in interest. When used with reference to employment, "Company" also includes any business organization, 50% or more of the voting control of which is owned or controlled directly or indirectly, by the Company.

(e) "Eligible Director" means any director of the Company who is not also an employee of the Company.

(f) "Eligible Employee" means any key employee of the Company selected by the Committee.

(g) "Market Value" means the average of the closing prices for a Share as reported on the New York Stock Exchange or other national exchange for a Share as reported on a nationally recognized system of price quotation beginning twenty-one (21) days prior to and ending on the date the value of a Share is to be determined.

(h) "Participant" means any individual to whom Share Units are issued or issuable under the Plan.

(i) "Restriction Period" means a period of time not more than ten (10) years, as determined by the Committee at the time of grant, from the date the Restricted Share Units are granted.

(j) "Restricted Share Units" means Share Units granted under the Plan subject to a Restriction Period.

(k) "Share" or "Shares" means the shares of Common Stock, $1.25 par value of the Company.

(l) "Share Units" means a share-denominated unit with a value equal to the Market Value of a specified number of Shares. Share Units are bookkeeping units entitling the holder to a cash payment and do not represent ownership of Shares or any other equity security.

(m) "Tax Date" means the date as of which Share Units are taxed (for federal income tax purposes) to the Participant.

Section 3. Administration

(a) For Eligible Directors, the Plan shall be administered by the Board of Directors, and for Eligible Employees, the Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Board of Directors and the Committee shall have authority to construe and interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan (including performance-related conditions for the issuance and vesting of Restricted Share Units), and to make all other determinations necessary or advisable for administering the Plan. The Board of Directors and the Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent it shall deem expedient to carry the Plan into effect. The Committee is authorized to establish performance conditions related to the issuance and vesting of Share Units under the Plan and to certify whether such conditions have been satisfied. The determination of the Committee on any matters within the scope of this section shall be conclusive.

(b) Except as provided in paragraph (c) below, the Board of Directors or the Committee may waive or lessen at any time any condition or restriction with respect to Restricted Share Units issued pursuant to the Plan, provided; however, that if such Restricted Share Units are granted to a member of the Board of Directors, such member shall not participate in the decision by the Board of Directors.

(c) To the extent that the issuance of Restricted Share Units subject to performance-related conditions is intended to qualify as "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended, the Plan shall be interpreted and administered to carry out such intention, and any provision of the Plan that cannot be so interpreted and administered shall to that extent be disregarded.

Section 4. Terms and Conditions

(a) Subject to the other provisions of this Section 4, Restricted Share Units issued pursuant to the Plan shall be subject to the following restrictions:

i. the Participant shall not be entitled to receive payment for the value of such Restricted Share Units until the expiration of the Restriction Period;

ii. such Restricted Share Units shall not be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restriction Period;

iii. all such Restricted Share Units shall be forfeited and all rights of the Participant to such Restricted Share Units shall terminate without further obligations on the part of the Company if the Participant ceases to be an employee of the Company (in the case of a Participant who receives Restricted Share Units as an Eligible Employee) or as a director (in the case of a Participant who receives Restricted Share Units as an Eligible Director) prior to the end of the Restriction Period; and

iv. such other lawful restrictions as the Board of Directors or the Committee, in its discretion, imposes at the time of the grant.

(b) Notwithstanding the provisions of paragraph (a) of this Section 4, in the event a Participant ceases to be an employee of the Company (in the case of a Participant who receives Restricted Share Units as an Eligible Employee) or as a director (in the case of a Participant who receives Restricted Share Units as an Eligible Director) prior to the end of a Restriction Period as a result of such Participant's death, disability or normal retirement in accordance with the Company's policies, then the restrictions set forth in paragraph (a) of this Section 4 shall immediately cease to apply.

(c) In the event a Participant who receives Restricted Share Units as an Eligible Employee ceases to be an employee prior to the end of a Restriction Period as a result of such Participant's early retirement in accordance with the Company's policies, such Restricted Share Units shall be forfeited, unless the early retirement of the Participant shall have been approved in advance by the Committee. If the Committee grants such approval, however, the restrictions set forth in paragraphs (a) (i) and (a) (ii) of this Section 4 shall continue until the earlier of the end of the Restriction Period or the date of such Participant's attainment of normal retirement age in accordance with the Company's policies; provided that, in any event, all such Restricted Share Units shall be forfeited and all rights of the Participant to such Restricted Share Units shall terminate without further obligations on the part of the Company if the Participant, directly or indirectly, individually or as an agent, officer, director, employee, shareholder (excluding being the holder of any stock which represents less than 1% interest in a corporation), partner or in any other capacity whatsoever engages, prior to the time such restrictions cease to apply, in any activity competitive with or adverse to the Company's business or in the sale, distribution, production or attempted sale or distribution of any goods, products or services then sold or being developed by the Company.

(d) Upon the occurrence of a Change in Control, all of the restrictions set forth in this Section 4 shall immediately cease to apply to all Restricted Share Units issued pursuant to the Plan.

(e) At the end of the Restriction Period, or at such earlier time as provided for in this Section 4, and if all other conditions including performance-related criteria have been satisfied, the restrictions applicable to any Share Units held by the Participant pursuant to this Section 4 shall cease, and payment for the value of such Participant's Share Units shall be made to the Participant or the Participant's beneficiary or estate, as the case may be. The amount of the cash payment to be made to the Participant for the value of their Share Units shall be calculated as the Market Value per Share multiplied by the number of Shares underlying each Share Unit multiplied by the number of Share Units for which payment is being made, less any amounts withheld pursuant to Section 2 of Article III.

In the event the Participant has elected to defer their receipt of payment for the value of Share Units pursuant to Article V, such treatment as prescribed by Article V shall prevail.

(f) If required by the Board of Directors or the Committee, each grant of Restricted Share Units shall be evidenced by a written agreement between the Company and the Participant. Such agreement may include a commitment by the Participant to perform services. In addition, the Board of Directors or the Committee may, in connection with and as a condition to a grant of

Restricted Share Units, require the Participant to execute and deliver to the Company a release form, executed in favor of the Company, to be used by the Company in connection with any forfeiture or other transfer of Restricted Share Units to the Company.

Section 5. Rights as a Holder of Share Units

(a) Following the grant of Restricted Share Units, Participants shall be eligible to receive Dividend Equivalent payments on each Share Unit held, until the earlier of such time the restrictions on such Share Units lapse or such Share Units are converted into Deferred Share Units pursuant to a valid deferred election per Article V of the Plan.

(b) The amount of such Dividend Equivalents which may be payable to Participants for each Share Unit held shall be equal to the value of cash dividends or distributions per Share multiplied by the number of Shares underlying each Share Unit granted to the Participant.

(c) Non-cash dividends or distributions are not payable to Participants as Dividend Equivalents.

(d) Dividend Equivalents shall either be paid to Participants currently or credited to a deferred cash account (as described in Article V Section 2(d)). Determination as to the current payment or deferral of Dividend Equivalents shall be made by the Committee.

(e) No other rights shall be conveyed to Participants by virtue of their holding of Share Units.

Section 6. No Share Unit Certificates; No Rights to Vote or Receive Dividends or Distribution

(a) The Company shall not issue any certificates which represent the Share Units granted to Participants.

(b) The grant of Share Units to Participants shall not entitle such Participants to any rights of a holder of Shares, including the right to vote or receive dividends or distributions.

ARTICLE II. SHARES UNITS FOR ELIGIBLE DIRECTORS

Section 1. Grants to Eligible Directors

During the term of the Plan, a portion of the annual cash compensation payable to Eligible Directors shall be payable in Restricted Share Units. The number of Restricted Share Units to be issued shall be based on the Market Value of a Share on the date the compensation is awarded (rounded to the next closest multiple of twenty-five (25) share units). Such grant shall offset the liability of the Company to pay the designated portion (not less than one-half ($^1/2$) of the annual cash retainer so covered by the grant). For an Eligible Director elected to the Board after the Annual Meeting, the Board of Directors shall authorize a grant of Restricted Share Units prorated on a quarterly basis from the date that the Eligible Director was first elected to the Board until the date of the next Annual Meeting.

ARTICLE III. SHARE UNITS FOR ELIGIBLE EMPLOYEES

Section 1. Grants to Eligible Employees

From time to time during the term of the Plan, the Committee at its discretion may otherwise authorize grants of Restricted Share Units to Eligible Employees for prior and future service, subject to other applicable provisions of the Plan. The duration of the Restriction Period, and other terms and conditions, if any, relating to issuance, delivery, vesting, payment, forfeiture and performance-based goals shall be as may be determined by the Committee. Performance-based goals shall relate to a specified performance period and may include one or more of the following performance measures: earnings, net cash flows, total shareholder return or economic value added. The Committee shall

establish the specific targets for such selected goals. The Committee may also determine that a portion of the total compensation for prior and future service to be paid to an Eligible Employee, pursuant to the Company's incentive compensation programs, shall be paid by granting to such Eligible Employee on the approximate date the compensation was to be awarded, a number of Restricted Share Units determined by dividing the amount of such compensation to be so paid by the Market Value of a Share on the date the compensation was to be awarded (rounded to the nearest whole Share Unit).

The Committee at its discretion, may delegate its authority to the Company's Chief Executive Officer to so award Restricted Share Units in an amount not to exceed 15,000 Share Units per calendar year to Eligible Employees, provided that any such grant shall be limited to 1,000 Share Units per Eligible Employee per calendar year, and further provided that the Chief Executive Officer shall not be authorized to award any grants to any officers of the Company. The Chief Executive Officer shall, on an annual basis, report all such awards to the Committee, and the Committee's ratification and approval of such awards shall be presumed in the absence of express action by the Committee to the contrary.

Section 2. Withholding Obligations

The Committee shall retain the right to withhold from any payment to any Participant of the value of Share Units (with respect to which the restrictions have lapsed or performance goals have been satisfied) an amount equal to all or any part of the federal, state and local withholding tax (whether mandatory or permissive) applicable to the payment for the value of such Participant's Share Units (up to a maximum amount determined by the employee's top marginal tax rate). The Company may establish from time to time rules or limitations with respect to the right of a holder to elect to have the Company retain Share Units with respect to which the restrictions have lapsed in satisfaction of withholding payments.

ARTICLE IV. MISCELLANEOUS

Section 1. Adjustments Upon Changes in Capitalization

Upon any change in the outstanding Shares by virtue of a share dividend or split, recapitalization, merger, consolidation, combination or exchange of Shares or other similar change, the number of Shares specified as underlying a grant of Share Units or Restricted Share Units shall be adjusted appropriately by the Company, whose determination with respect to such adjustment shall be conclusive, subject to the provisions concerning a Change of Control stated in Article I, Section 4(d).

Section 2. Compliance With Laws

If applicable, the issuance or delivery of Share Units pursuant to the Plan shall be subject to, and shall comply with, any applicable requirements of federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder), any securities exchange upon which the Shares may be listed and any other law or regulation applicable thereto. The Company shall not be obligated to issue or deliver any Share Units pursuant to the Plan if such issuance or delivery would, in the opinion of the Committee, violate any such requirements. The foregoing shall not, however, be deemed to require the Company to effect any registration of Share Units under any such law or regulation, although the Company may elect to do so.

Section 3. Amendment and Termination

(a) Subject to the limitations hereinafter set forth, the Committee may from time to time amend the Plan, or any provision thereof, in such respects as the Committee may deem in the best

interests of the Company. Any amendment to grant Restricted Share Units to an Eligible Director shall be made or ratified by the Board of Directors.

(b) The Plan shall terminate and no additional Share Units shall be granted under the Plan after the 2012 Annual Meeting, unless extended by the Board for an additional ten (10) year term. However, the Board may also earlier terminate, in either case, if and when no further Shares are available for issuance.

(c) No amendment to or termination or expiration of the Plan shall adversely affect the ultimate forfeiture, vesting, issuance or delivery of any Restricted Share Units previously granted or awarded under the Plan without the consent of the holder thereof.

Section 4. Notices

Each notice relating to the Plan shall be in writing and delivered in person or by mail to the proper address. Each notice shall be deemed to have been given on the date it is delivered or mailed. Each notice to the Company, the Board of Directors or the Committee shall be addressed as follows: Flowserve Corporation 222 W. Las Colinas Boulevard, Suite 1500, Irving, Texas 75039. Attention: Secretary. Each notice to a Participant shall be addressed to the Participant's address as set forth in the records of the Company. Anyone to whom a notice may be provided under this Plan may designate a new address by written notice to the Company or to the Participants, as the case may be.

Section 5. Benefits of Plan

The Plan shall inure to the benefit of, and shall be binding upon, each successor and assign of the Company. Rights under the Plan may not be assigned or alienated by any Participant. Nothing in the Plan shall be deemed to create any obligation on the part of the Company to nominate any director for re-election or to continue the employment of any employee, nor shall anything in the Plan be construed to give any Eligible Employee any contract or other right to participate in this Plan in any way which is not approved in advance by the Committee.

Section 6. Taxes

The Company shall have the right to require, prior to the issuance, delivery, payment, or vesting of any Share Units, payment by the Participant of any taxes required by law with respect to such issuance, delivery, payment, or vesting.

Section 7. Governing Law

The laws of the State of Texas shall control the interpretation and performance of the provisions of the Plan.

Section 8. Effective Date of the Plan

The effective date of the Plan is December 1, 2002.

Section 9. Cancellation of Restricted Share Units Through Share Grant

Notwithstanding anything to the contrary in the Plan, the Committee may, in its discretion, cancel a grant of Restricted Share Units hereunder, provided that the recipient of the cancelled grant receives a grant of Shares by the Company, subject to a Restriction period which corresponds to the Restriction period of the cancelled Restricted Share Units and further provided that the number of Shares so granted is equal to the number of Restricted Share Units of such cancelled grant. Upon such cancellation, all rights of a Participant in the cancelled Restricted Share Unit grant shall fully and

immediately cease. No such cancellation may occur after the expiration of a Restriction Period of the applicable Restricted Share Unit grant.

ARTICLE V. PARTICIPANT DEFERRAL OF RESTRICTED SHARES

Section 1. Forms of Deferral

(a) Participants who are either Eligible Directors or who are Eligible Employees (each an "Eligible Participant") shall be eligible to defer receipt of payment for the value of Share Units or Restricted Share Units under the Plan.

(b) An Eligible Participant may defer the receipt of payment for Restricted Shares Units pursuant to the Plan by filing an appropriate notice with the Secretary of the Company. An election to defer payment shall be effective upon such acceptance and shall apply only to Share Units which either (i) have not yet been granted or awarded or (ii) which vest (in the case of Restricted Share Units) or are issuable (in the case of Share Units subject to performance-related conditions) in the following calendar year or thereafter, provided, in the case of this clause (ii), such election is made and accepted prior to July 1 of the year preceding such vesting or issuance. This election to defer Share Unit or Restricted Share Unit payments (which shall be called "Deferred Share Units" hereafter upon such election) shall remain in effect until terminated or changed as provided in this Plan.

(c) A Participant may terminate any on-going agreement to accept receipt of Deferred Share Units relating to future grants or awards by giving notice of termination to the Company. Any such termination shall be effective only with respect to in the case of Restricted Share Units grants or payment for Share Units which occur on or after the date of the termination notice.

Section 2. Accounts for Deferred Shares

(a) The Company will establish a separate deferred cash account for each Participant who has Deferred Share Units in which the Deferred Share Units will be maintained.

(b) [Reserved]

(c) [Reserved]

(d) Any dividend equivalents paid on the Deferred Share Units held in this account (hereinafter "Dividend Equivalents") will be credited to this account to be established under the Trust in which the amount of the Dividend Equivalents will be recorded for the benefit of the Participant, with interest to be credited to the Dividend Equivalents in the following manner. The Company will credit to each such cash account, as of the first 1st day of each calendar quarter, interest on the amount then credited to such account, including all previous credits to such account by operation of this Section, computed at an annual rate equal to 120% of the long-term applicable federal rate compounded quarterly as published by the Internal Revenue Service for the beginning month of each calendar quarter to determine imputed interest income for tax purposes.

(e) Any Deferred Share Units and any Dividend Equivalents hereunder credited to the cash deferral account of a Participant, or as any interest or any Dividend Equivalents paid on such Deferred Share Units, will represent only an unsecured promise of the Company to pay or deliver the amount so credited in accordance with the terms of this Article of the Plan. Neither a Participant nor any beneficiary of a Participant will acquire any right, title, or interest in any asset of the Company as a result of any amount of cash or Deferred Share Units credited to a Participant's account or accounts. At all times, a Participant's rights with respect to the amount credited to his/her account or accounts will be only those of an

unsecured creditor of the Company. The Company will not be obligated or required in any manner to restrict the use of any of its assets as a result of any amount credited to a Participant's account or accounts. No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, pledge, lien, encumbrance or charge, and any attempt to take any such action shall be void.

Section 3. Payment for Deferred Share Units

Payment for Deferred Share Units shall be distributed only in accordance with the following sections, pursuant to the election specified by the Participant.

(a) In the event a Participant ceases to be a director or employee of the Company, as the case may be, for any reason, any Deferred Share Units and the interest and Dividend Equivalents on these Deferred Share Units (other than Deferred Share Units, that have been forfeited) previously or currently credited to his/her account will be paid to the Participant commencing within sixty (60) calendar days of his/her termination in accordance with the method of payment elected by the Participant.

(b) The Participant may elect to receive such payments in a lump sum, in equal annual installments (not exceeding ten (10), or in some designated combination thereof.

(c) If the payment election is a lump sum by the Participant, then interest and Dividend Equivalents will be credited to the account through the date of distribution, and the entire amount of Dividend Equivalents, with applicable interest, will be paid, and the entire Deferred Share Units account balance will be transferred to the Participant within sixty (60) days of his/her termination.

(d) If installment payments have been elected by the Participant, any Dividend Equivalents, with applicable interest, will be calculated through the date of termination and added to the account. The resulting deferred cash total shall be divided equally by the number of installments elected and the first payment made within sixty (60) days of termination. The second and all subsequent installment payments shall be made between January 1st and 30th of each following year. Interest will continue to accrue to the account on the balance remaining in the Participant's account until all installments have been paid. Interest will be paid annually with each installment payment. With regard to the Deferred Share Units, the aggregate number of Deferred Share Units held in the separate account for Deferred Share Units will be divided by the number of installments elected and allocated in equal whole number proportions to be distributed with each such installment payment (with any remainder after such equal division to be included in the first installment). All Deferred Share Units will be distributed with deferred cash payments. Dividend Equivalents from any undistributed or unpaid Deferred Share Units will continue to accrue to the Participant's account, receive applicable interest credit and will be paid with the next applicable deferred installment payment.

(e) If any portion of a Participant's deferred account remains unpaid at his/her death, then after his/her death such amount will be paid (i) to his/her beneficiary(ies) in accordance with the method of payment elected by the Participant (following the procedures for lump sum and installment payments set forth above), or (ii), if the beneficiary predeceases the Participant, to the Participant's estate in a lump sum. Should a beneficiary die after the Participant has terminated service but before the entire Deferred Share Units have been paid out and disbursed, the balance of the cash benefit will be paid to the beneficiary's estate in a lump sum, and the Deferred Share Units benefit will be transferred to such estate in kind.

(f) Notwithstanding anything to the contrary above, no Deferred Share Units shall be paid to the Participant until expiration or termination of the applicable Restriction Period or, if earlier, until the provisions of Article I, Section 4 (a) cease to apply to such Share Units, and until satisfaction of applicable performance related conditions, if any.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed this day of December, 2002.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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EXHIBIT 10.52

FLOWSERVE CORPORATION SENIOR MANAGER RETIREMENT PLAN

Amended and Restated as of July 1, 1999

The Flowserve Corporation Senior Manager Retirement Plan (formerly the Flowserve Corporation Benefit Equalization Pension Plan) as amended and restated as of July 1, 1999 ("Plan") is set forth below. The Plan is sponsored by Flowserve Corporation for certain selected executive and management employees and is exempt from the participation, vesting, funding and fiduciary requirements of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA").

ARTICLE I—PURPOSE

1.1 *Purpose of the Plan.* The primary purpose of the Company in establishing this Plan is to make up the benefits lost by Eligible Senior Managers under the Qualified Plan as a result of the maximum individual benefit limitations and restrictions imposed upon includable compensation in qualified plans under ERISA and the Internal Revenue Code.

ARTICLE II—DEFINITIONS

2.1 *Definitions.* Whenever used in the Plan, the following terms shall have the respective meanings set forth below:

(a) "Board" or "Board of Directors" means the Board of Directors of the Company.

(b) "Change in Control" shall mean any change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), excluding any transaction described in Section 2.1(b) that is specifically determined thereunder not to constitute a Change in Control. Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(i) Any "Person" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than the Company or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (a) the then outstanding common shares of the Company (the "Outstanding Shares") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by the Company or any corporation, partnership, trust or other entity controlled by the Company (a "Subsidiary"), (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (a) or (b) of Section 2.1(b)(iii) are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Securities as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, including any affiliates defined in clauses (i)(b)(2) or (i)(b)(3) of this Section 2.1(b), which, by reducing the number of Outstanding Shares or Voting Securities, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Securities by the

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Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Securities which increases the percentage of the Outstanding Shares or Voting Securities beneficially owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(ii) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, disability, or ineligibility of the director to seek re-election to the Board as a result of term or age limitations, to constitute at least two-thirds ($^2/_3$) of the Board within any consecutive twenty-four month (24) period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such twenty-four (24) month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds ($^2/_3$) of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(iii) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Securities, as the case may be, or (b) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/4$) of the officers of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the Board of Directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/4$) of the board of directors of the ultimate parent company of the corporation resulting from such reorganization, merger or consolidation and (3) the positions of Chairman of the board of directors, the Chief Executive Officer and the President of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(iv) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners,

respectively, of the Outstanding Shares and Voting Securities immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such Outstanding Shares and Voting Securities, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then Outstanding Shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then Outstanding Voting Securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds ($^2/3$) of the members of the board of directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding anything to the contrary in this Section 2.1(b) and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Section 2.1(b). In such circumstances, a Change in Control will be deemed to have occurred through a vote by two-thirds ($^2/3$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

(c) "Committee" means the Compensation Committee of the Board of Directors of the Company.

(d) "Company" means Flowserve Corporation and any subsidiary participating in the Qualified Plan

(e) "Effective Date" means July 1, 1999.

(f) "Eligible Senior Manager" means any person who is (A) a participant in the Qualified Plan; (B) an officer or manager in a position in the Company or a Subsidiary at a salary grade of 15 or above; and (C) designated by the Committee to participate in the Plan.

(g) "Predecessor Plan" means either the Flowserve Corporation Benefit Equalization Pension Plan (Flowserve Equalization Plan) or the BW/IP International Supplemental Executive Retirement Plan (BW/IP SERP).

(h) "Qualified Plan" means the Flowserve Corporation Pension Plan, as amended from time to time, or any successor to this Plan, and any other qualified pension plan that may be designated by the Committee.

Any other term used in this Plan which is defined in the Qualified Plan shall have the meaning set forth therein.

ARTICLE III—PARTICIPATION

3.1. *Participation.* An employee shall become a participant as of the first day of the calendar month coincident with or next following the date he first becomes an Eligible Senior Manager. Once eligible for participation in the Plan, an Eligible Senior Manager shall be entitled to accrue benefits for the remainder of the Plan Year, provided that he remains a member of the select group of management employees for whom this Plan is designed.

ARTICLE IV—BENEFITS FOR ELIGIBLE SENIOR MANAGER

4.1 *Eligibility.* An Eligible Senior Manager or the beneficiary of an Eligible Senior Manager who is paid a benefit under the Qualified Plan commencing after the Effective Date shall be eligible to receive benefits under this Plan; provided, however, the Company may in its discretion restrict on a prospective basis the classification of persons who are eligible to receive benefits under this Plan.

4.2 *Amount of Benefits.* The amount of benefits payable under the Plan to an Eligible Senior Manager who is eligible for benefits under the Qualified Plan shall be the amount computed under Section 4.2(a) minus the amount computed under Section 4.2(b).

(a) The amount of benefits that would be payable under the Qualified Plan to such Eligible Senior Manager or Beneficiary without regard to any restrictions ("Restrictions") imposed by ERISA and the Internal Revenue Code upon (i) the maximum amount of benefits which may be paid out of a qualified plan, (ii) the compensation which may be recognized by a qualified plan or (iii) any other provision of a qualified plan which the Committee deems, in its discretion, to reduce the benefits otherwise payable from the Qualified Plan;

(b) The amount of benefits actually payable under the applicable Qualified Plan to such Eligible Senior Manager or beneficiary.

4.3 *Transitional Benefit.* Each Eligible Senior Manager of the Company who either (i) was participating in the Qualified Plan and a Predecessor Plan on June 30, 1999, or (ii) was participating in the Qualified Plan on June 30, 1999 and was a Senior Executive Officer of the Company on June 30, 1999, but was not participating in a Predecessor Plan, shall have an opening accrued benefit as of July 1, 1999, equal to the excess of an opening accrued benefit (determined in the same manner as under the Qualified Plan but without regard to Restrictions) over the opening Cash Balance Account determined under the Qualified Plan. The Opening Cash Balance Transition Credit under the Qualified Plan shall apply to benefits determined under this Plan. Notwithstanding the above, no opening account balance or transition credit shall be established for an Eligible Senior Manager who was (i) participating in the BW/IP SERP on June 30, 1999 (other than as a Senior Executive Officer) and who elected to continue participation in the Plan under provisions as outlined in the BW/IP SERP before this restatement or (ii) participating in the Flowserve Equalization Plan on June 30, 1999 (other than as a Senior Executive Officer) and who continued participation in the Plan under provisions as outlined in the Flowserve Equalization Plan before this restatement.

4.4 *Commencement and Form.* Subject to the provisions of this Article IV and Committee approval, an Eligible Senior Manager may elect to commence benefits in any month following the month in which his employment terminates. Any election by the participant to change the above described method of payment, or any change in any such election, may be made only with the consent of the Committee or with the consent of an individual or committee designated by the Committee to review and rule upon requests for such consent.

To the extent an Eligible Senior Manager elected to continue participation under the provisions of the BW/IP SERP and the form of payment available under the Qualified Plan is not available under the terms of the BW/IP SERP, the benefit payable from this Plan can be paid in any form available under the BW/IP SERP. However, the benefit from this Plan will be calculated as if that form of payment was elected under the Qualified Plan.

Notwithstanding the above, the Committee (or its delegate), in its sole discretion, may determine that benefits will be paid to an Eligible Senior Manager or a beneficiary in a form other than as selected by the Eligible Senior Manager on his election form. A change in the form of payment will be effective only if the Committee (or its delegate) notified the Eligible Senior Manager or beneficiary of its action before it is effective. No change in the form of benefit payment may be made under this

provision on or after a Change in Control of the Company, unless the Eligible Senior Manager or beneficiary consents.

The total benefit payable under this Plan shall be offset by the cash value of any life insurance due to the Eligible Senior Manager under the Agreement for Secured Benefit Plan and Collateral Assignment.

4.5 *Change in Control.* Notwithstanding the requirements for vesting under the Qualified Plan, in the event of a Change in Control, the Eligible Senior Manager shall immediately be fully vested in his benefit under the Plan.

ARTICLE V—ADMINISTRATION

5.1 *Administration.* The Committee shall be responsible for the general administration of the Plan and the carrying out of the provisions thereof, and shall have all rights and powers required in connection therewith, including the right to establish rules for the administration of the Plan and the methods to be used in calculating benefits. Prior to a "Change of Control" as defined in Section 2.1(b), the Committee's decisions regarding the Plan's administration shall be final, nonappealable and binding in the absence of bad faith or gross negligence on the part of the Committee.

5.2 *Application for Benefits.* The Committee shall determine an Eligible Senior Manager or beneficiary's eligibility for benefits. Each Eligible Senior Manager or beneficiary claiming a benefit under the Plan shall complete an application form and file it with the Committee or an administrator designated by the Committee. The Committee shall take action on all applications for benefits within ninety (90) days of receipt. If an application is approved, the Committee shall determine, or cause to be determined, the applicant's benefits under the Plan.

5.3 *Claims Procedure.* If an application for benefits is denied or benefits are forfeited, in whole or in part, the following claims procedure shall be applicable:

(a) The Committee will provide the claimant with a written notice of denial, setting forth (i) an explanation as to why the claim was denied or benefit forfeited, (ii) the provisions of the Plan upon which the denial or forfeiture was based, and (iii) an explanation of the Plan's claims procedure. If the Committee does not deny a claim on its merits, but rejects the application for failure to furnish certain necessary material or information, the written notice to the claimant will explain what additional material is needed and why, and advise the claimant that he may refile a proper application.

(b) Within sixty (60) days after the receipt of the Committee's notice of denial or forfeiture, the claimant may file a written notice of appeal of the denial or forfeiture of benefits with the Committee. In addition, within such appeal period, the claimant may review pertinent documents at such reasonable times and places as the Committee may specify and may submit any additional written material pertinent to the appeal not set forth in the Committee, and the claimant shall be entitled to appear before the Committee to present his claim.

(c) The Committee will make a written decision on the appeal not later than sixty (60) days after its receipt of the notice of appeal, unless special circumstances require an extension of time, in which case a decision will be given as soon as possible, but not later than one hundred-twenty (120) days after receipt of the notice of appeal. The decision on the appeal will be in writing and shall include specific reasons for the decision, making specific reference to the provisions of the Plan upon which the decision was based.

In the event the Committee fails to take any action on the claimant's initial application for benefits within ninety (90) day after receipt, the application will be deemed denied, and the applicant's appeal rights under this Section 5.3 will be in effect as of the end of such period.

ARTICLE VI—FINANCING

6.1 *Financing of Benefits.* No Eligible Senior Manager shall be required or permitted to make any contribution under the Plan.

For executives actually receiving payment of benefits under the Plan prior to July 1, 1999, amounts shall be payable by the Company, when due, out of the trust created under the "First Master Benefit Trust Agreement" between the Company and Bank One, Dayton, as Trustee, or any successor agreement. After June 30, 1999, the Company may provide security for payment of benefits using executive-owned life insurance (premiums paid by the Company) or any other method approved by the Committee for this purpose. As an alternative to and notwithstanding the above, the Company may elect to directly pay such benefits to an Eligible Senior Manager, subject to the approval of the Committee. For an Eligible Senior Manager terminating employment as a result of a Change in Control, vested benefits shall be funded in such manner as shall be determined by the Committee.

ARTICLE VII—GENERAL PROVISIONS

7.1 *Non-Alienation of Benefits.* No benefit which shall be payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, garnishment, encumbrance, or charge by an Eligible Senior Manager, beneficiary or survivor or anyone claiming under any of them. If an Eligible Senior Manager, beneficiary or survivor or anyone claiming under any of them shall attempt to or shall subject in any manner any benefit which shall be payable under this Plan to anticipation, alienation, sale, transfer, assignment, pledge, garnishment, encumbrance, or charge, his interest in any such benefit shall terminate and the Committee shall hold or apply it to or for the benefit of such person, his spouse, children or other dependents, or any of them as the Committee may decide. In addition, all benefits under this Plan shall be computed without giving effect to any "Qualified Domestic Relations Order", as such term is defined under ERISA.

7.2 *Incompetency.* Every person receiving or claiming benefits under the Plan shall be conclusively presumed to be mentally competent and of age until the Committee receives written notice, in a form and manner acceptable to it, that such person is incompetent, and that a guardian, conservator, statutory committee, or other person legally vested with the care of his estate has been appointed. In the event that the Committee finds that any person to whom a benefit is payable under the Plan is unable to properly care for his affairs, then any payment due (unless a prior claim therefore shall have been made by a duly appointed legal representative) may be paid to the spouse, a child, a parent, or a brother or sister, or to any person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

In the event a guardian or conservator or statutory committee of the estate of any person receiving or claiming benefits under the Plan shall be appointed by a court of competent jurisdiction, payments shall be made to such guardian or conservator or statutory committee, provided that proper proof of appointment is furnished in a form and manner suitable to the Committee. Any payment made under the provision of this Section 7.2 shall be a complete discharge of liability therefore under the Plan.

7.3 *Employment Rights.* The establishment of the Plan shall not be construed as conferring any legal rights upon any Eligible Senior Manager or any other person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person or to treat him without regard to the effect which such treatment might have upon him as a person covered by this Plan.

7.4 *Notices.* Any notice required or permitted to be given hereunder to an Eligible Senior Manager or spouse will be properly given if delivered or mailed, postage prepaid, to the Eligible Senior Manager or beneficiary at the last post office address as shown on the Company's records. Any notice

to the Company shall be properly given or filed if delivered or mailed, postage prepaid, to the Corporate Secretary of the Company at its principal place of business.

7.5 *Waiver of Notice.* Any notice required hereunder may be waived by the person entitled thereto.

7.6 *Action by Company.* Any action required or permitted to be taken hereunder by the Company shall be taken by the Committee, or by any person or persons or committee otherwise authorized by its Board of Directors.

7.7 *Uniform Rules.* In administrating the Plan, the Committee will apply uniform rules to all Eligible Senior Managers similarly situated.

7.8 *Notice of Address.* Any payment to an Eligible Senior Manager, or in case of his death to his beneficiary or survivor, at the last known post office address of the distributee on file with the Company, shall constitute a complete acquittance and discharge to the Company with respect thereto unless the Company shall have received prior written notice of any change in the condition, status or location of the distributee. The Company shall have no duty or obligation to search for or ascertain the whereabouts of any Eligible Senior Manager or his spouse.

7.9 *Record.* The records of the Company with respect to the Plan shall be conclusive on all Eligible Senior Managers, beneficiaries and survivors, and all other persons whomsoever.

7.10 *No Individual Liability.* It is declared to be the express purpose and intention of the Plan that no liability whatever shall attach to or be incurred by the shareholders, officers, or directors of the Company, or any representatives appointed hereunder by the Company, under or by reason of any of the terms or conditions of the Plan.

7.11 *Illegality of Particular Provision.* If any particular provision of this Plan shall be found to be illegal or unenforceable, such provision shall not affect the other provisions thereof, but the Plan shall be construed in all respects as if such invalid provision were omitted.

ARTICLE VIII—AMENDMENT AND TERMINATION

8.1 *Amendment and Termination.* The Company expects the Plan to be permanent, but since future conditions affecting the Company cannot be anticipated or foreseen, the Company must necessarily and does hereby reserve the right to amend or terminate the Plan at any time by action of its Board of Directors.

8.2 *Contingencies Affecting the Company.* In the event of a merger or consolidation of the Company, or the transfer of substantially all of the assets of the Company to another corporation, such successor corporation shall be substituted for the Company under the terms and provisions of the Plan.

8.3 *Protected Benefits.* If the Plan is amended or terminated, the full benefits payable to each retired Eligible Senior Manager, beneficiary or survivor shall not be reduced. An Eligible Senior Manager who is in active service at the time of Plan amendment or termination shall be entitled to no less than the benefits he has accrued under the Plan to the date of such amendment or termination. The time and manner of payment of benefits subsequent to such date shall remain subject to the terms and conditions of the Plan, as they may have been amended, except that any Eligible Senior Manager, beneficiary or survivor covered by or receiving benefits from the Plan as of such date may elect to have the provisions in effect prior to their amendment apply to him. Subject to the foregoing provision, the Eligible Senior Manager shall have a contractual right to all benefits applicable to him under the Plan. In the event that an Eligible Senior Manager brings a legal action after a "Change of Control" as defined in Section 2.1(b) to enforce any of his rights hereunder, the Company shall reimburse the Eligible Senior Manager for his legal fees and expenses in bringing such action unless it is judicially determined that such action was frivolous or brought in bad faith.

ARTICLE IX—APPLICABLE LAW

9.1 *Applicable Law.* The Plan shall be governed by and construed according to the law of the State of Texas.

IN WITNESS WHEREOF, Flowserve Corporation has caused this instrument to be executed by its duly authorized officer, this 10th day of January, 2003.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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EXHIBIT 10.53

FLOWSERVE CORPORATION SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Flowserve Corporation Supplemental Executive Retirement Plan ("Plan") is set forth below. The Plan is sponsored by Flowserve Corporation for executive officers and is exempt from the participation, vesting, funding and fiduciary requirements of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA").

ARTICLE I—PURPOSE

1.1 *Purpose of the Plan.* The primary purpose of the Company in establishing this Plan is to provide additional retirement benefits to Eligible Executives.

ARTICLE II—DEFINITIONS

2.1 *Definitions.* Whenever used in the Plan, the following terms shall have the respective meanings set forth below:

(a) "Board" or "Board of Directors" means the Board of Directors of the Company.

(b) "Change in Control" shall mean any change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") excluding any transaction described in Section 2.1(b) (i)-(iv) below that is specifically determined thereunder not to constitute a Change in Control. Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(i) Any "Person" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than the Company or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (a) the then outstanding common shares of the Company (the "Outstanding Shares") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by the Company or any corporation, partnership, trust or other entity controlled by the Company (a "Subsidiary"), (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (a) or (b) of Section 2.1(b)(iii) are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Securities as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, including any affiliates defined in clauses (i)(b)(2) or (i)(b)(3) of this Section 2.1(b), which, by reducing the number of Outstanding Shares or Voting Securities, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Securities which increases the percentage of the Outstanding Shares or Voting Securities beneficially

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owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(ii) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, disability, or ineligibility of the director to seek re-election to the Board as a result of term or age limitations, to constitute at least two-thirds ($^2/_3$) of the Board within any consecutive twenty-four month (24) period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such twenty-four (24) month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(iii) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Securities, as the case may be, or (b) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the officers of the ultimate parent Company of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the Board of Directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least three-quarters ($^3/_4$) of the board of directors of the ultimate parent Company of the corporation resulting from such reorganization, merger or consolidation and (3) the positions of Chairman of the board of directors, the Chief Executive Officer and the President of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(iv) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Securities immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such

Outstanding Shares and Voting Securities, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds ($^2/_3$) of the members of the board of directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding anything to the contrary in this Section 2.1(b) and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Section 2.1(b). In such circumstances, a Change in Control will be deemed to have occurred through a vote by two-thirds ($^2/_3$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

(c) "Committee" means the Compensation Committee of the Board of Directors of the Company.

(d) "Company" means Flowserve Corporation and any subsidiary participating in the Qualified Plan.

(e) "Compensation" means base salary plus annual incentive pay.

(e) "Effective Date" means July 1, 1999.

(f) "Eligible Executive" means any person who is (A) a participant in the Qualified Plan; (B) an executive officer of the Company; and (C) designated by the Committee to participate in the Plan.

(g) "Predecessor Plan" means either the Flowserve Corporation Benefit Equalization Pension Plan (Flowserve Equalization Plan) or the BW/IP International Supplemental Executive Retirement Plan (BW/IP SERP).

(h) "Qualified Plan" means the Flowserve Corporation Pension Plan, as amended from time to time, or any successor to this Plan, and any other qualified pension plan that may be designated by the Committee.

Any other term used in this Plan which is defined in the Qualified Plan shall have the meaning set forth therein.

ARTICLE III—PARTICIPATION

3.1. *Participation.* An employee shall become a participant as of the first day of the calendar month coincident with or next following the date he first becomes an Eligible Executive, provided that he remains a member of the select group of officers for whom this Plan is designed.

ARTICLE IV—BENEFITS FOR ELIGIBLE EXECUTIVE

4.1 *Eligibility.* An Eligible Executive or the beneficiary of an Eligible Executive who is paid a benefit under the Qualified Plan commencing after the Effective Date shall be eligible to receive

benefits under this Plan; provided, however, the Company may in its discretion restrict on a prospective basis the classification of persons who are eligible to receive benefits under this Plan.

4.2 *Amount of Benefits.* Each Eligible Executive shall have a cash balance account. The cash balance account is a bookkeeping account that the company uses to record an Eligible Executive's opening cash balance account, contribution credits and interest credits earned under the Plan and is not in an actual account having Plan assets allocated to it.

(a) Contribution Credits. The Company adds annual contribution credits equal to 5% of Compensation.

(b) Interest Credits. The Company adds interest credits based upon the Eligible Executives beginning of quarter cash balance account plus 50% of Company contribution credits for the quarter at the interest rate for interest credits under the Qualified Plan.

4.3 *Transitional Benefit.* For each Eligible Executive, who is in employment and eligible to participate in the Plan on July 1, 1999, an opening cash balance account shall be determined as follows:

(a) Eligible Executives with at least eighty (80) "age and credited service" points (as defined under the Qualified Plan, who were participating in a Predecessor Plan on July 1, 1999, shall have an opening cash balance account structured to provide a total projected age sixty-two (62) benefit approximately equal to the benefit from the Predecessor Plan, assuming actual bonus is 100% of target.

(b) Eligible Executives who were not in a defined benefit plan on July 1, 1999, shall have an opening cash balance account equal to 5% of 1998 compensation times years of service with the Company (including BW/IP, Inc. and Durco International, Inc.) for each year as an executive officer of the Company.

(c) Eligible Executives who commence participation in the Plan after July 1, 1999, shall have an opening cash balance account equal to 5% of current Compensation times years of service with the Company (including BW/IP, Inc. and Durco International, Inc.).

4.4 *Commencement and Form.* Subject to the provisions of this Article IV and Committee approval, an Eligible Executive may elect to commence benefits in any month following the month in which his employment terminates. The form, manner and duration of any benefits paid to an Eligible Executive under this Plan shall be in the same form, manner and duration as benefits are paid under the Qualified Plan, and any elections made under the Qualified Plan shall be binding as to any optional provisions hereunder, including any election of an Eligible Executive in favor of an early retirement pension or vested deferred retirement pension. Any election by the Eligible Executive to change the above described method of payment, or any change in any such election, may be made only with the consent of the Committee or with the consent of an individual or committee designated by the Committee to review and rule upon requests for such consent.

Notwithstanding the above, the Committee (or its delegate), in its sole discretion, may determine that benefits will be paid to an Eligible Executive or a beneficiary in a form other than as selected by the Eligible Executive on his election form. A change in the form of payment will be effective only if the Committee (or its delegate) notified the Eligible Executive or beneficiary of its action before it is effective. No change in the form of benefit payment may be made under this provision on or after a Change in Control of the Company, unless the Eligible Executive or beneficiary consents.

The total benefit payable under this Plan shall be offset by the cash value of any life insurance due to the Eligible Executive Manager under the Agreement for Secured Benefit Plan and Collateral Assignment.

4.5 *Change in Control.* Notwithstanding the requirements for vesting under the Qualified Plan, in the event of a Change in Control, the Eligible Executive shall immediately be fully vested in his benefit under the Plan.

ARTICLE V—VESTING

The cash balance account of each Eligible Executive shall vest at the rate of 20% for each of the first five (5) years of participation in the Plan as an executive officer after July 1, 1999.

ARTICLE VI—ADMINISTRATION

6.1 *Administration.* The Committee shall be responsible for the general administration of the Plan and the carrying out of the provisions thereof, and shall have all rights and powers required in connection therewith, including the right to establish rules for the administration of the Plan and the methods to be used in calculating benefits. Prior to a "Change of Control" as defined in Section 2.1(b), the Committee's decisions regarding the Plan's administration shall be final, nonappealable and binding in the absence of bad faith or gross negligence on the part of the Committee.

6.2 *Application for Benefits.* The Committee shall determine an Eligible Executive or beneficiary's eligibility for benefits. Each Eligible Executive or beneficiary claiming a benefit under the Plan shall complete an application form and file it with the Committee or an administrator designated by the Committee. The Committee shall take action on all applications for benefits within ninety (90) days of receipt. If an application is approved, the Committee shall determine, or cause to be determined, the applicant's benefits under the Plan.

6.3 *Claims Procedure.* If an application for benefits is denied or benefits are forfeited, in whole or in part, the following claims procedure shall be applicable:

(a) The Committee will provide the claimant with a written notice of denial, setting forth (i) an explanation as to why the claim was denied or benefit forfeited, (ii) the provisions of the Plan upon which the denial or forfeiture was based, and (iii) an explanation of the Plan's claims procedure. If the Committee does not deny a claim on its merits, but rejects the application for failure to furnish certain necessary material or information, the written notice to the claimant will explain what additional material is needed and why, and advise the claimant that he may refile a proper application.

(b) Within sixty (60) days after the receipt of the Committee's notice of denial or forfeiture, the claimant may file a written notice of appeal of the denial or forfeiture of benefits with the Committee. In addition, within such appeal period, the claimant may review pertinent documents at such reasonable times and places as the Committee may specify and may submit any additional written material pertinent to the appeal not set forth in the Committee, and the claimant shall be entitled to appear before the Committee to present his claim.

(c) The Committee will make a written decision on the appeal not later than sixty (60) days after its receipt of the notice of appeal, unless special circumstances require an extension of time, in which case a decision will be given as soon as possible, but not later than one hundred-twenty (120) days after receipt of the notice of appeal. The decision on the appeal will be in writing and shall include specific reasons for the decision, making specific reference to the provisions of the Plan upon which the decision was based.

In the event the Committee fails to take any action on the claimant's initial application for benefits within ninety (90) days after receipt, the application will be deemed denied, and the applicant's appeal rights under this Section 6.3 will be in effect as of the end of such period.

ARTICLE VII—FINANCING

7.1 *Financing of Benefits.* No Eligible Executive shall be required or permitted to make any contribution under the Plan.

The Company may provide security for payment of benefits using executive-owned life insurance (premiums paid by the Company) or any other method approved by the Committee for this purpose. As an alternative to and notwithstanding the above, the Company may elect to pay such benefits directly to an Eligible Executive, subject to the approval of the Committee. For an Eligible Executive terminating employment as a result of a Change in Control, vested benefits shall be funded in such manner as shall be determined by the Committee.

ARTICLE VIII—GENERAL PROVISIONS

8.1 *Non-Alienation of Benefits.* No benefit which shall be payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, garnishment, encumbrance, or charge by an Eligible Executive, beneficiary or survivor or anyone claiming under any of them except pursuant to a "Qualified Domestic Relations Order", as such term is defined under ERISA. If an Eligible Executive, beneficiary or survivor or anyone claiming under any of them shall attempt to or shall subject in any manner any benefit which shall be payable under this Plan to anticipation, alienation, sale, transfer, assignment, pledge, garnishment, encumbrance, or charge, his interest in any such benefit shall terminate and the Committee shall hold or apply it to or for the benefit of such person, his spouse, children or other dependents, or any of them as the Committee may decide.

8.2 *Incompetency.* Every person receiving or claiming benefits under the Plan shall be conclusively presumed to be mentally competent and of age until the Committee receives written notice, in a form and manner acceptable to it, that such person is incompetent, and that a guardian, conservator, statutory committee, or other person legally vested with the care of his estate has been appointed. In the event that the Committee finds that any person to whom a benefit is payable under the Plan is unable to properly care for his affairs, then any payment due (unless a prior claim therefore shall have been made by a duly appointed legal representative) may be paid to the spouse, a child, a parent, or a brother or sister, or to any person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

In the event a guardian or conservator or statutory committee of the estate of any person receiving or claiming benefits under the Plan shall be appointed by a court of competent jurisdiction, payments shall be made to such guardian or conservator or statutory committee, provided that proper proof of appointment is furnished in a form and manner suitable to the Committee. Any payment made under the provision of this Section 8.2 shall be a complete discharge of liability therefore under the Plan.

8.3 *Employment Rights.* The establishment of the Plan shall not be construed as conferring any legal rights upon any Eligible Executive or any other person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person or to treat him without regard to the effect which such treatment might have upon him as a person covered by this Plan.

8.4 *Notices.* Any notice required or permitted to be given hereunder to an Eligible Executive or spouse will be properly given if delivered or mailed, postage prepaid, to the Eligible Executive or beneficiary at the last post office address as shown on the Company's records. Any notice to the Company shall be properly given or filed if delivered or mailed, postage prepaid, to the Corporate Secretary of the Company at its principal place of business.

8.5 *Waiver of Notice.* Any notice required hereunder may be waived by the person entitled thereto.

8.6 *Action by Company.* Any action required or permitted to be taken hereunder by the Company shall be taken by the Committee, or by any person or persons or committee otherwise authorized by its Board of Directors.

8.7 *Uniform Rules.* In administrating the Plan, the Committee will apply uniform rules to all Eligible Executives similarly situated.

8.8 *Notice of Address.* Any payment to an Eligible Executive, or in case of his death to his beneficiary or survivor, at the last known post office address of the distributee on file with the Company, shall constitute a complete acquittance and discharge to the Company with respect thereto unless the Company shall have received prior written notice of any change in the condition, status or location of the distributee. The Company shall have no duty or obligation to search for or ascertain the whereabouts of any Eligible Executive or his spouse.

8.9 *Record.* The records of the Company with respect to the Plan shall be conclusive on all Eligible Executives, beneficiaries and survivors, and all other persons whomsoever.

8.10 *No Individual Liability.* It is declared to be the express purpose and intention of the Plan that no liability whatever shall attach to or be incurred by the shareholders, officers, or directors of the Company, or any representatives appointed hereunder by the Company, under or by reason of any of the terms or conditions of the Plan.

8.11 *Illegality of Particular Provision.* If any particular provision of this Plan shall be found to be illegal or unenforceable, such provision shall not affect the other provisions thereof, but the Plan shall be construed in all respects as if such invalid provision were omitted.

ARTICLE IX—AMENDMENT AND TERMINATION

9.1 *Amendment and Termination.* The Company expects the Plan to be permanent, but since future conditions affecting the Company cannot be anticipated or foreseen, the Company must necessarily and does hereby reserve the right to amend or terminate the Plan at any time by action of its Board of Directors.

9.2 *Contingencies Affecting the Company.* In the event of a merger or consolidation of the Company, or the transfer of substantially all of the assets of the Company to another corporation, such successor corporation shall be substituted for the Company under the terms and provisions of the Plan.

9.3 *Protected Benefits.* If the Plan is amended or terminated, the full benefits payable to each retired Eligible Executive, beneficiary or survivor shall not be reduced. An Eligible Executive who is in active service at the time of Plan amendment or termination shall be entitled to no less than the benefits he has accrued under the Plan to the date of such amendment or termination. The time and manner of payment of benefits subsequent to such date shall remain subject to the terms and conditions of the Plan, as they may have been amended, except that any Eligible Executive, beneficiary or survivor covered by or receiving benefits from the Plan as of such date may elect to have the provisions in effect prior to their amendment apply to him. Subject to the foregoing provision, the Eligible Executive shall have a contractual right to all benefits applicable to him under the Plan. In the event that an Eligible Executive brings a legal action after a "Change of Control" as defined in Section 2.1(b) to enforce any of his rights hereunder, the Company shall reimburse the eligible Executive for his legal fees and expenses in bringing such action unless it is judicially determined that such action was frivolous or brought in bad faith.

ARTICLE X—APPLICABLE LAW

10.1 *Applicable Law.* The Plan shall be governed by and construed according to the law of the State of Texas.

IN WITNESS WHEREOF, Flowserve Corporation has caused this instrument to be executed by its duly authorized officer, this 10th day of January, 2003.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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EXHIBIT 10.54

FLOWSERVE CORPORATION
PERFORMANCE UNIT PLAN

1. *Establishment of the Plan.* The name of the Plan is the Flowserve Corporation Performance Unit Plan (hereinafter called the "Plan"). The effective date of the Plan is January 1, 2001.

2. *Purpose.* The purpose of the Plan is to provide an incentive to certain key employees of Flowserve Corporation (the "Company") and of its subsidiary corporations to improve the earnings and performance of the Company.

3. *Administration.* The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company. No member of the Committee shall be eligible to participate in the Plan. The Committee shall have power to construe and interpret the Plan and to establish and amend rules, regulations and forms for its administration and to certify all payments made under the Plan. The determination of the Committee on all matters relating to the Plan shall be conclusive. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any award thereunder.

4. *Eligibility.* Employees eligible to participate in the Plan shall be those key employees of the Company or any subsidiary corporation whose efforts may have an effect upon the growth and performance of the Company and who shall be selected to participate in the Plan by the Committee or any successor thereto. The eligibility date for selection by the Committee shall be January 15 in the first year of each three-year cycle of the Plan ("Eligibility Date").

5. *Award of Performance Units.* Awards under the Plan consist of Performance Units. A Performance Unit is a contingent right to receive cash if the Company meets the financial goals established by the Committee for a three-year cycle of the Plan. Annually, within 120 days after the close of the Company's fiscal year, the Committee may award to eligible employees Performance Units in such amounts so as to have a target value at the conclusion of a three-year cycle equal to a pre-determined percentage of annual base salary at the time of the award. To determine the amount of an award to a non-U.S. employee, annual base salary in local currency shall be converted into U.S. dollars at the applicable exchange rate on January 31 (or the next business day) following the Employee's Eligibility Date.

6. *Value of Performance Units.* In connection with each award, the Committee shall establish a targeted three-year compound growth rate in earnings per share of the Common Stock of the Company for such three-year cycle of the Plan. The targeted value of a Performance Unit shall be equal to the sum of the annual earnings per share targets for the three-year cycle. The final value of a Performance Unit shall be equal to (i) the actual earnings per share for the three full fiscal years beginning with the fiscal year in which an award of a Performance Unit is made to an employee multiplied by (ii) a performance multiplier set at the discretion of the Committee and based on the annual growth rate in earnings per share during the three-year cycle by comparing, upon a compounded basis, the earnings per share for the final year of the cycle with the earnings per share during the fiscal year immediately preceding the award of a Performance Unit. Earnings per share for any fiscal year will be determined by reference to the published financial reports of the Company by dividing reported consolidated net income for the year by the reported average number of common shares outstanding, during such year.

7. *Vesting of Performance Units.*

(A) General. The value of Performance Units will vest fully in the employee to whom awarded at the close of business on the last day of the fiscal year with reference to which the value of a Performance Unit is finally determined.

(B) Vesting Upon Change in Control. If there is an event constituting a Change in Control (as hereinafter defined) of the Company, the value of all outstanding Performance Units shall

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immediately vest in the employee to whom awarded as of the date on which such Change in Control occurs. The value shall be equal to (i) the actual earnings per share for full fiscal years since the beginning of the fiscal year in which the Performance Unit was awarded plus target earnings per share for each of the remaining years in the three-year performance cycle multiplied by (ii) a performance multiplier set by the Committee and based on the annual growth rate in earnings per share during the three-year cycle.Definition of Change in Control. Change in Control shall mean any Change in Control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). Without limitation, such a Change in Control shall be deemed to have occurred upon the occurrence of any of the following:

(i) Any "Person" (within the meaning of Articles 13(d) and 14(d)(2) of the Exchange Act), other than the Company or affiliates controlled by the Company, becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 20% or more of either: (a) the then outstanding common shares of the Company (the "Outstanding Shares") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Power"); provided, however, that such beneficial ownership shall not constitute a Change in Control if it occurs as a result of any of the following acquisitions of securities: (1) any acquisition directly from the Company, (2) any acquisition by the Company or any corporation, partnership, trust or other entity controlled by the Company (a "Subsidiary"), (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or (4) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (a) or (b) of Section 7(C)(iii) are satisfied. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") became the beneficial owner of 20% or more of the Outstanding Shares or Voting Power as a result of the acquisition of Outstanding Shares or Voting Power by the Company, including any affiliates defined in clauses (i)(b)(2) or (i)(b)(3) of this Section 7(C), which, by reducing the number of Outstanding Shares or Voting Power, increases the proportional number of shares beneficially owned by the Subject Person; provided, that if a Change in Control would be deemed to have occurred (but for the operation of this sentence) as a result of the acquisition of Outstanding Shares or Voting Power by the Company, and after such share acquisition by the Company, the Subject Person becomes the beneficial owner of any additional Outstanding Shares or Voting Power which increases the percentage of the Outstanding Shares or Voting Power beneficially owned by the Subject Person, then a Change in Control shall then be deemed to have occurred; or

(ii) Individuals who constitute the Board (the "Incumbent Board") cease for any reason except for the death, disability, or ineligibility of the director to seek reelection to the Board as a result of term or age limitations, to constitute at least two-thirds of the Board within any consecutive twenty-four month period; provided, however, that any individual becoming a director subsequent to the date of the beginning of such 24 month period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the elected directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than

the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation; or

(iii) The consummation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Power immediately prior to such reorganization, merger or consolidation, in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of such Outstanding Shares and Voting Power, as the case may be, or (b) (1) officers of the Company as of the effective date of such reorganization, merger or consolidation constitute at least two-thirds of the officers of the corporation resulting from such reorganization, merger or consolidation, (2) elected members of the Board of Directors of the Company as of the effective date of such reorganization, merger or consolidation constitute at least two-thirds of the board of directors of the corporation resulting from such reorganization, merger or consolidation and (3) the chairman of the board of directors, the chief executive officer and the president of the corporation resulting from such reorganization, merger or consolidation are held by individuals with the same positions at the Company as of the effective date of such reorganization, merger or consolidation; or

(iv) The consummation of the sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, unless such assets have been sold, leased, exchanged or disposed of to a corporation with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Shares and Voting Power immediately prior to such sale, lease, exchange or other disposition in substantially the same proportions as their ownership immediately prior to such sale, lease, exchange or other disposition of such Outstanding Shares and Voting Power, as the case may be, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary of the Company or a subsidiary thereof or any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 20% or more of the Outstanding Shares or Voting Power, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation (or any parent thereof) and the combined voting power of the then outstanding voting securities of such corporation (or any parent thereof) entitled to vote generally in the election of directors and (iii) at least two-thirds of the members of the Board of Directors of such corporation (or any parent thereof) were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding anything to the contrary in this Section 7(C) and without limitation, the Incumbent Board may, in its sole discretion, determine that a Change in Control has occurred under circumstances other than those contemplated by this Section 7(C). In such circumstances, a Change in Control will be deemed to have occurred through a vote by two-thirds ($^2/_3$) of the Incumbent Board to approve a motion declaring such a Change in Control has occurred.

8. *Limitation on Value of Performance Units.* Prior to the beginning of the each three-year cycle, the Committee will establish a hurdle rate ("Hurdle Rate") based on the average return on net assets (before special items) or such other financial performance standard approved by the Committee for the three-year cycle. No payments on account of Performance Units will be paid unless the Company has met or exceeded its Hurdle Rate.

9. *Payments on Account of Performance Units.* Payments on account of Performance Units which have fully vested shall be made to the employees in whom such Units have vested, in cash within 90 days of the date, or as soon as practicable thereafter, upon which such units become vested. For non-U.S. employees, the U.S. dollar amount payable shall be converted to the employee's local currency at the exchange rate on December 31 of last year of the performance cycle.

10. *Adjustments.* The Committee may make adjustments from time to time in the number of Performance Units credited to any employee's account or in the earnings per share, in such reasonable manner as the Committee may determine to reflect (i) any increase or decrease in the number of issued shares of common stock of the Company resulting from a subdivision or consolidation of shares or any other capital adjustment, the payment of stock dividends or other increases or decreases in such shares effected without receipt of consideration by the Company; or (ii) material changes in the Company's accounting practice or principles; or (iii) material acquisitions or dispositions, the effect of which would be to distort earnings per share of the performance multiplier described above.

11. *Death, Disability, Retirement or Termination.* If, before the vesting of Performance Units, an employee holding such Performance Units ceases to be employed by the Company or any of its subsidiaries for any reason other than death, disability or retirement, unvested Performance Units will be forfeited.

In the event of an employee's death, disability or retirement before the vesting of any Performance Units which he or she may hold, the Committee may, but is not obligated to, provide in its sole discretion for the vesting and payment of any such unvested Performance Units upon an equitable basis reflecting the performance of the Company during the period beginning on the date when such employee was awarded Performance Units and ending upon the date of death, disability or retirement.

No Performance Unit shall be regarded as in any way vested unless the employee is in the employ of the Company or any of its subsidiaries at the conclusion of the period in which the value of any Performance Units is finally determined, and the decision of the Committee with respect to any such determination shall be final.

12. *Amendment or Termination of Plan.* The Board of Directors, other than Directors who are participants under the Plan, may amend, suspend or terminate this Plan at any time or from time to time, provided, however that no amendment, suspension or termination may affect the terms of any then outstanding Performance Units without the written consent of the holder thereof.

13. *Continuance of Employment.* The Plan shall not impose any obligation on the Company or its subsidiary corporations to continue the employment of any person.

IN WITNESS WHEREOF, the Corporation has caused this instrument as amended and restated to be executed effective as of January 1, 2001, except as otherwise stated herein.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and General Counsel

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EXHIBIT 10.54

FLOWSERVE CORPORATION PERFORMANCE UNIT PLAN

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EXHIBIT 13.1

ABOUT THE COMPANY

Flowserve Corporation [NYSE: FLS] manufactures engineered and industrial pumps, industrial valves, control valves, nuclear valves, valve actuators and controls and precision mechanical seals, and provides a range of related flow management services worldwide, primarily for the process industry. Flowserve provides flow management products and services worldwide. Approximately one-half of the company's 2002 sales of almost $2.3 billion were to customers outside the United States. With approximately 14,000 employees, operations in 56 countries and a comprehensive array of flow control solutions, Flowserve is a leading provider of industrial flow management services.

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FINANCIAL HIGHLIGHTS

	December 31,		
	2002(a)	**2001**	**2000(a)**
	(Amounts in thousands, except ratios and per share data)		
RESULTS OF OPERATIONS			
Sales	**$ 2,251,331**	$ 1,917,507	$ 1,538,293
Flowserve Pump(b)	**1,204,604**	1,170,226	808,571
Flow Control(b)	**726,360**	451,487	440,138
Flow Solutions(b)	**350,667**	328,009	327,413
Operating income, before special items(d)(e)(f)	**213,848**	142,154	92,031
Flowserve Pump(c)	**134,731**	144,460	89,690
Flow Control(c)	**43,181**	39,243	39,736
Flow Solutions(c)	**64,684**	51,501	46,580
Net earnings (loss)	**53,025(d)**	(1,497)(e)	13,241(f)
Average shares outstanding	**52,193**	39,330	37,842
Net earnings (loss) per diluted share	**$ 1.02(d)**	$ (0.04)(e)	$ 0.35(f)
Bookings	**2,184,074**	1,975,536	1,521,561
Backlog	**733,662**	662,803	659,250
PERFORMANCE RATIOS (as a percent of net sales)			
Gross profit margin	**30.5%**	32.0%	33.0%
Selling, general and administrative expenses	**21.2%**	21.4%	23.4%
Operating income	**8.4%**	7.4%	6.0%
Net earnings	**2.4%**	—	0.9%
FINANCIAL CONDITION AND RATIOS			
Cash and cash equivalents	**$ 49,293**	$ 21,533	$ 42,341
Working capital	**539,022**	481,368	464,035
Total assets	**2,607,665**	2,051,975	2,110,143
Total debt	**1,094,358**	1,040,745	1,129,206
Shareholders' equity	**755,690**	411,019	304,911
Return on average shareholders' equity	**8.5%**	(0.5)%	4.4%
Return on average net assets	**5.7%**	5.5%	3.6%
Net debt to capital ratio	**58.0%**	71.3%	78.1%
Current ratio	**2.1**	2.2	2.1
Book value per share	**$ 13.78**	$ 9.18	$ 8.14
SELECTED CASH FLOW CAPTIONS			

Cash flows from operations	**248,867**	(47,929)	18,431
Capital expenditures	**30,875**	35,225	27,819
Depreciation and amortization	**65,313**	73,855	57,037

(a) Financial results in 2002 include the acquisition of IFC and in 2000 include the acquisitions of Invatec and IDP from the date of the respective acquisitions.

(b) Includes intersegment sales and excludes certain minor entities.

(c) Excludes integration expenses, restructuring expenses, purchase accounting adjustments for inventory, corporate expenses, and certain minor entities.

The following "special items" are included in the financial highlights noted:

(d) Financial results in 2002 include integration expenses of $16,179, restructuring expense of $4,347, an extraordinary item of $7,371 net of tax, and a $5,240 purchase accounting adjustment associated with the required write-up and subsequent sale of acquired inventory, resulting in a reduction in after tax net earnings of $24,273.

(e) Financial results in 2001 include integration expenses of $63,043, a reduction of Flowserve restructuring expense of $1,208 and an extraordinary item of $17,851 net of tax, resulting in a reduction in after tax net earnings of $57,307.

(f) Financial results in 2000 include integration expenses of $35,211, restructuring expenses of $19,364 and an extraordinary item of $2,067 net of tax, resulting in a reduction in after tax net earnings of $37,752.

To our Shareholders and Employees:

Market conditions were tough throughout 2002, particularly in several of our major end-user markets such as refining, chemical processing, power generation and general industry. Growth in other markets—like oil and gas production and water—was not strong enough to offset the broader downturn.

MARKET DOWNTURN HURT 2002 RESULTS

As a result, both sales and net income for 2002 were below our expectations. Sales for 2002 were $2.3 billion compared with reported prior year sales of $1.9 billion. On a pro forma basis, 2002 sales were $2.4 billion, flat with 2001. Pro forma results are as if we acquired Invensys plc's flow control division (IFC) on January 1, 2001, instead of the actual date of May 2, 2002. Sales in 2002 were up 17 percent versus prior year reported sales, but were down 1 percent on a pro forma basis. Net income for 2002 increased $54.5 million, to $53 million, from a net loss of $1.5 million in 2001.

Although net income increased in 2002, earnings did not meet our original expectations. The market downturn weakened demand especially in our quick-turnaround business.

However, last year did have its bright spots. In the face of soft demand, we focused our efforts on improving the variables within our control. We strengthened our product portfolio, streamlined our operations, generated considerable cash flow and improved our financial position by paying down debt before the scheduled due date.

A FOCUS ON VARIABLES WE CAN CONTROL

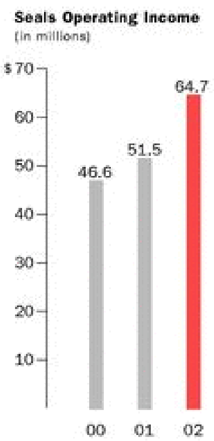
We took significant actions in 2002 to improve and solidify our company's market and financial positions. Whether the near-term future brings renewed market growth or a continued downturn, we are now better prepared to deliver positive results for our shareholders. Here are several steps we took to improve both our revenue and profit potential.

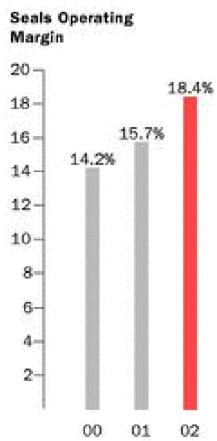
- We acquired IFC and became the second largest valve supplier in the world. The acquisition was complementary—there was virtually no overlap between our existing product portfolio and the IFC portfolio. As a result, we broadened our product offerings, acquired greater market diversity and expanded our geographical reach. Sales to international customers now exceed 50 percent of our total sales. We believe there is a significant opportunity to grow our revenues through cross-selling—selling our pump and seal products and services to the IFC customer base and selling IFC valves into our existing Flowserve customer base.

- On the operational side of the IFC acquisition, we expect to realize greater integration savings than we originally anticipated. On an annual run-rate basis,

we now estimate we will capture $15 to 20 million in annual synergy savings that will improve our bottom line.

- We realigned our service business for pumps and valves for better ties to the original equipment business, similar to our proven seals service model. By creating fixed-fee alliances with our customers, our seals service business has been able to generate steady revenue and margin growth even in down-markets (as shown below). With this model in place across all of our businesses, we believe we can reduce our revenue volatility and lessen the impact of future cyclical downturns on our results.





- We generated strong cash flow by reducing inventories and accounts receivables as well as operating expenses and interest expense. As a result, we were able to pay down a significant portion of our outstanding debt. Our net debt-to-capital ratio improved to 58.0 percent at the end of 2002, from 71.3 percent at year-end 2001 and 78.1 percent at year-end 2000. Our goal is to further strengthen our balance sheet in 2003 by finding more opportunities to reduce both working capital and operating expenses and continuing to repay debt.

Each of these actions took the coordinated efforts of all our Flowserve employees. I thank each of them for their focus and hard work throughout a difficult year. Our management team and employees are committed to taking the right steps to make Flowserve the preferred supplier for all of our customers' flow control needs.

A COMMITMENT TO THE VISION WE DEFINED

We have a clear vision for Flowserve. Our vision is to be the preferred supplier in the flow control industry. We believe we must have the following capabilities to achieve our vision. We must:

- Be a one-stop shop.

- Be a global supplier with 24/7 capabilities.

- Provide innovative service solutions.

- Streamline our manufacturing.

- Deliver operational excellence.

- Be financially strong.

This is our vision for Flowserve. We are making good progress in moving our organization closer to the vision we've defined and, in

2003, we will continue our efforts to position Flowserve for the future.

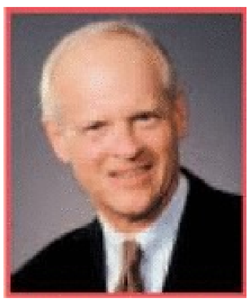
We will continue to innovate and invest in R&D in order to broaden our product portfolio. We will continue to work with our customers to broaden the diversity of applications for our products. We will continue to improve our operations and lower costs. We will continue to work toward a future when Flowserve is the primary supplier customers turn to for all of their flow control needs.

Our company is committed to making our vision a reality and to delivering our full potential for you, our shareholders.

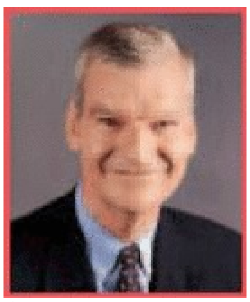
C. Scott Greer
Chairman, President and Chief Executive Officer

Flowserve Corporation

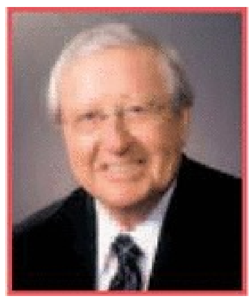
Board of Directors



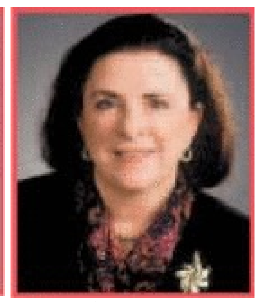
C. Scott Greer, Chairman, President and Chief Executive Officer, Flowserve Corporation



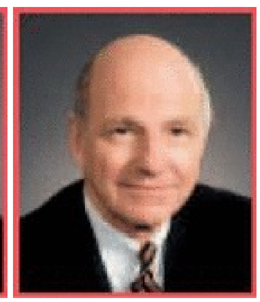
Christopher A. Bartlett, DBA Professor of Business Administration Harvard University



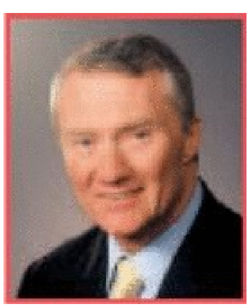
Hugh K. Coble, Vice Chairman, Emeritus, Fluor Corporation, Compensation Committee



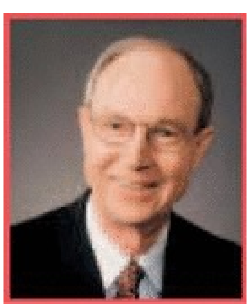
Diane C. Harris, President, Hypotenuse Enterprises, Inc., Audit/Finance Committee, Corporate Governance and Nominating Committee



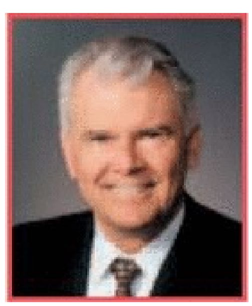
George T. Haymaker, Jr., Non-Executive Chairman of the Board, Kaiser Aluminum Corporation, Non-Executive Chairman of the Board, Safelite Auto Glass, Compensation Committee, Corporate Governance and Nominating Committee



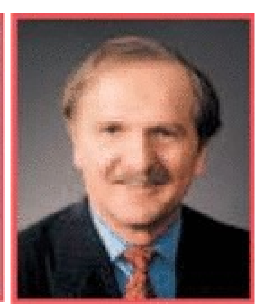
Michael F. Johnston, President and Chief Operating Officer, Visteon Corporation, Compensation Committee



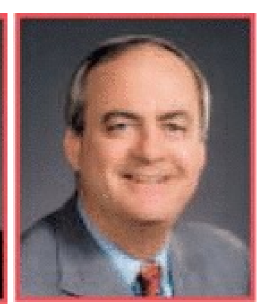
Charles M. Rampacek, Chairman, President and Chief Executive Officer, Probex Corp., Audit/Finance Committee



James O. Rollans, Former President and Chief Executive Officer, Fluor Signature Services, Audit/Finance Committee



William C. Rusnack, Advisor to and former President, Chief Executive Officer, Chief Operating Officer and Director, Premcor Inc. Audit/Finance Committee



Kevin E. Sheehan, General Partner, CID Equity Partners, Compensation Committee, Corporate Governance and Nominating Committee

Corporate Governance

We're proud of our Board's long-standing corporate governance practices. It has traditionally followed best practices, instead of minimum legal requirements, in corporate governance. While others struggle to comply with the new Sarbanes-Oxley federal reform legislation, our Board is not. We made only incremental modifications to meet the tougher new legal requirements.

- Our Audit/Finance Committee was already composed of only experienced independent directors. For many years, this committee has engaged in the regular practice of holding separate meetings with our external and internal auditors. This committee had already adopted and enforced limitations on any non-audit services provided by PricewaterhouseCoopers, our independent accountants.

- Excluding our CEO, our Board is composed of independent directors who receive only director's compensation from the Company. The Board and each Board Committee operate under formal written charters. Under its charter, the Board's Corporate Governance and Nominating Committee performs customary Board governance and nominating committee functions, including new director recruiting and CEO selection.

- For the past seven years, our Board has followed a formal annual CEO review process, a formal annual Board self-assessment process and a formal biannual director peer-review process. The Board has traditionally conducted executive sessions led by a designated outside independent director without the CEO present.

In 2002, we took several significant steps to move closer to the vision we've defined for Flowserve.

Our checklist: Getting ready to go.

While in 2002 the global economy weakened, many customers reduced their capital and maintenance spending, demand for our products and services decreased and our sales did as well, nonetheless we earned $53 million, an improvement of $54.5 million compared to a net loss last year. Importantly, we generated $248.9 million of cash flow from operations.

This past year, we took significant steps to solidify and improve our company's position by focusing on the variables we can control:

- We expanded our product and service offerings with the acquisition of Invensys plc's flow control division (IFC).
- We strengthened our global capabilities.
- We introduced our successful seals service model to our pump and valve businesses.
- We consolidated and streamlined our manufacturing operations and realized significant savings as a result.
- We strengthened our commitment to operational excellence and backed it up with training, tools and resources. Again, we achieved significant savings as a result.
- We managed our business aggressively while maintaining sound financial fundamentals.

Taken together, these steps—and the steps we as a management team take each and every year—define who we are and where we are going. With each step, we deepen our commitment to the vision we've defined for our company:

- A one-stop shop.
- A global competitor with 24/7 capabilities.
- An innovative service solutions provider.
- A lean, high-quality, fast and flexible manufacturer.
- A company with a strong balance sheet and healthy cash flow.

In 2002, we made good progress toward our defined vision in each of these dimensions.

As we enter 2003, we believe our company is in a very strong, competitively advantaged position. We're ready to capitalize on revitalized, growing markets when they come. At the same time, we're prepared to weather a prolonged downturn. Whatever the market conditions, we'll continue to take the right steps to ensure Flowserve reaches its full potential as an outstanding supplier of superior flow control products and services, as a preferred employer and as an attractive investment opportunity.

Flowserve is the one-stop shop for high quality,
reliable flow control products and services.

FLOWSERVE

FLOWSERVE'S PRODUCTS AND SERVICES

Flowserve Corporation

Flowserve's Products and Services

Flowserve is the world's leading single-source provider of flow management products and related repair and replacement services. We have an estimated worldwide installed base of more than one million pumps working in a broad range of industrial applications. Flowserve is the premier manufacturer of pumps for the petroleum, chemical processing and power generating industries, and our valves, valve actuators and valve automation systems are widely installed in refineries, chemical plants, pharmaceutical, food and other processing applications. Our seals and sealing systems are used to prevent leakage of fluids in a variety of rotating systems. On this page is a sampling of the hundreds of models of Flowserve pumps, valves and seals.

MECHANICAL SEALS

Highly engineered mechanical seals are used in pumps, compressors, mixers, steam turbines and other rotary-motion equipment applications for containing corrosive, volatile, abrasive, precious or flammable fluids.

CONTROL VALVES

Flowserve offers an array of control valves that are available in a wide range of styles and materials. Our control valves handle fluids that range from liquefied gases to highly corrosive chemicals.

FLOWSERVE VALVES & ACTUATORS

Flowserve quarter-turn equipment consists of plug, ball, butterfly, gate, globe and check valves made in a variety of materials, linings and body styles. Our valve automation systems include a broad range of rack and pinion, scotch, yoke, and electric actuators for actuation of manual quarter-turn valves into automated systems.

CHEMICAL PROCESS PUMPS

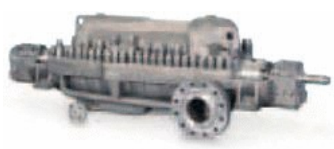
Flowserve is a leading supplier of chemical process pumps worldwide. These pumps conform to American National Standard Institute (ANSI) and International Standards Organization (ISO) specifications and are used where reliability is critical. Pumps are available in a variety of designs and materials to meet any demand of severe chemical circulation.

VERTICAL PUMPS

Flowserve manufactures this type of pump principally for the demands of water-management operations such as power plant circulating, river intake, cooling tower, water supply and irrigation applications.

MULTISTAGE PUMPS

These heavy-duty, high-pressure and -temperature multistage pumps comply with specifications of the American Petroleum Institute (API). Typical applications include petroleum production, pipelines, petroleum refining, boiler feedwater, water treatment and mining.

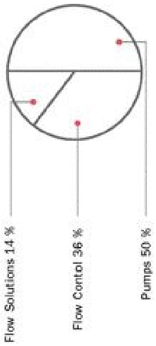


TWO STAGE PUMPS

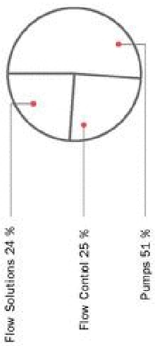
Flowserve's two-stage process pumps are fully compliant with the specifications of the API. This piece of equipment is designed for the high-temperature and -pressure requirements in a number of applications in petroleum refining.

We acquired IFC.

Contributions to 2002 Pro Forma Sales



Contributions to 2002 Pro Forma Operating Income (before special items) (1)



(1) Excludes Corporate and Other

On May 2, 2002, we completed our acquisition of IFC and became the world's second largest supplier of valve products and services. We gained a dozen well-recognized brands and established market positions—and a stronger presence in the petroleum, power, water, chemical and general industry segments and European valve markets.

ONE-STOP SHOPPING AT FLOWSERVE

The IFC acquisition was yet another substantial step forward in our efforts to become a one-stop shop for flow control products and services. Our competitive position is now even stronger in pumps, valves and seals. We are the world's second largest pump manufacturer and a leading supplier to the petroleum, chemical and power industries. We have more than one million installed pumps around the world. We are the world's second largest supplier of valves, actuators and related products and services. We are the world's second largest seal producer, manufacturing 180 different models of seals and sealing systems. We're also the leader in laser-manufactured wavey face technology—an innovative new manufacturing approach that produces far more reliable sealing.

CUSTOMERS EXPECT MORE FROM FEWER SUPPLIERS

In virtually all of our end-markets, our customers are trying to simplify operations and ultimately reduce costs. They want to maintain fewer makes of equipment and inventory fewer types of parts. They increasingly expect Flowserve to deliver more value:

- Through simplified purchasing by bundling multiple flow control products into one contract.
- By delivering and installing flow control products to multiple facilities located around the world.
- By providing service and replacement parts throughout the life of a pump or valve.
- Through designing and delivering flow control subsystems rather than just component parts.

In the future, we believe our customers will look to one or two suppliers to handle all of their flow control needs—in an effort to simplify their operations and reduce their costs. Our vision is to be the one-stop shop for high quality, reliable flow control products and services. With our acquisition of IFC, we are significantly closer to making our vision a reality.

Flowserve is a global company
with 24/7 capabilities.

FLOWSERVE'S MARKETS

Flowserve Corporation

Global and Operating Around the Clock

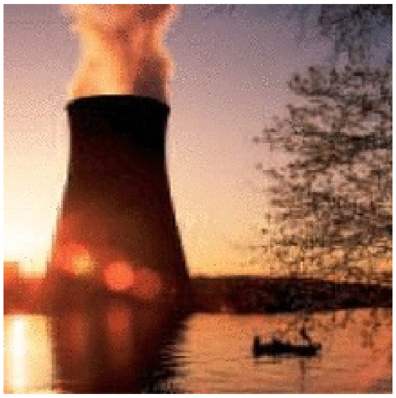
We serve all types of process industries including petroleum, power, water, chemical and general industrial markets such as food processing and pharmaceuticals. Our markets are large, diverse and global. Many flow control applications are mission-critical; meaning downtime is both disruptive and expensive.

Flowserve has local resources around the world. Our flow control experts are ready to help with design, installation and ongoing service throughout the life of our pumps, valves and seals. Like our markets, we are global and we operate around the clock.

PETROLEUM

The petroleum industry spends more than $6 billion each year on flow control products, including pumps, valves and seals.

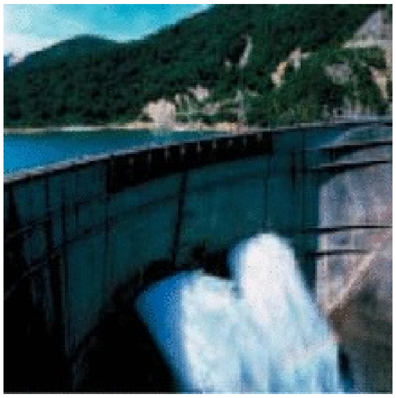
Production, refining, pipelines and gas processing facilities have extensive flow control needs. Petroleum applications represent approximately 30 percent of Flowserve's annual orders.



POWER

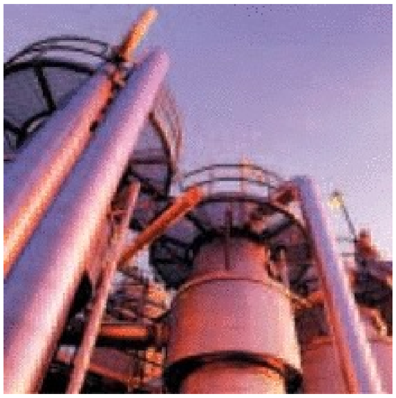
Power generation plants, including fossil fuel, nuclear power and natural gas power as well as waste-to-energy and other types of renewable resources, use Flowserve flow control products. Power industry applications account for almost 17 percent of Flowserve's annual orders.

Global and Operating Around the Clock



WATER

For more than 100 years, water utilities have used Flowserve pumps, valves and seals to make water fit to drink and to deliver it to millions of customers. Fresh water, desalination, irrigation, wastewater treatment, flood control and environmental clean-up projects are all flow control applications in this industry sector. Water accounts for 7 percent of Flowserve's annual orders.



CHEMICAL

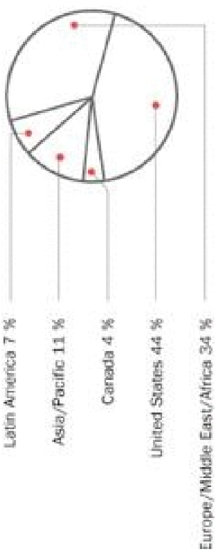
In the chemical industry, Flowserve products control the flow of steam, air, water, hydrocarbons, organic and inorganic fluids. Flow control applications in chemicals, petrochemicals and agrochemicals account for approximately 19 percent of Flowserve's annual orders.

GENERAL INDUSTRY

General industries include pharmaceuticals, food processing, pulp and paper, mineral and ore processing, steel and metal production as well as navy and marine applications. This broad and diverse sector represents about 27 percent of Flowserve's annual orders.

We added global resources.

Geographic Coverage
2002 Pro Forma Sales
by Destination



Petroleum exploration, production and refining—chemical processing—power generation—water purification and processing—all of our markets operate around the clock. All of our markets are global. Many applications are mission-critical, meaning downtime is both expensive and disruptive.

GLOBAL CAPABILITIES

As a supplier of essential products and services to these markets, we must also operate globally and around the clock. In 2002, we added resources in Europe and Asia-Pacific through our acquisition of IFC. We opened an engineering center in Bangalore, India—one of six centers of excellence located around the world. Each has a certain expertise in our pump, valve and seals business—specializing by technical competence such as finite element analysis or by a certain type of pump, valve or seal design or application.

We can handle the big projects. When an engineering firm in Japan, working for a European multinational, is designing a facility in Singapore, we have the product portfolio, the technical expertise and local resources in Japan, Europe and Asia-Pacific to meet their flow-control needs.

Specifically in 2002, we supplied pumps and seals to a major Russian refinery. Our flow control equipment was an integral part of the effort to modernize the refinery and upgrade the hydrotreater. We also supplied pumps and seals to a major chemical complex located near Rio de Janeiro, Brazil.

OPERATING AROUND THE CLOCK

In our seals business, we have a network of more than 50 service and quick response centers (QRCs) located around the world—close to our customers' facilities. In the majority of these we have the ability to measure a pump at the customer's site, design the seal, manufacture the seal, assemble and test it in less than 72 hours. That's the best turnaround time in the industry and it's available on a 24/7/365 basis.

In every aspect of flow control—pumps, valves and seals—Flowserve is a global company with 24/7 capabilities.

Flowserve is an innovative service solutions
provider for pumps, valves and seals.

We extended our proven service model.

Today, we get about half of our sales revenues from aftermarket business. Our seals business sets the standard with a proven service model built on customer alliances. In 2002, our seals service business delivered positive sales and income growth in spite of tough market conditions. Steady growth with less volatility is a direct benefit of our service model.

A WIN-WIN SITUATION

Customer alliances come in many forms but all are designed to create a win-win situation for our customers and us. Customers win with lower costs, lower inventory levels and longer mean time between equipment failures. Flowserve wins through increased market share and reduced selling costs. With one seven-year alliance partner, we have reduced life cycle costs by 40 percent, tripled seal life and doubled pump life.

Alliances can also improve reliability through training. At one chemical plant—a long-term alliance partner—we conduct 24 classes each year with topics ranging from seal selection, installation, trouble-shooting, failure analysis and site-specific issues.

Our seals service business is the industry leader in developing customer alliances. Thirty to forty percent of our worldwide seal end-user business is done through alliances. Beginning in third quarter 2002, the service business for pumps and valves was realigned within the

Flowserve organization. Now the pump and valve product groups have responsibility for their respective service businesses. We believe our new organizations can more aggressively expand our proven service model by leveraging existing customer relationships.

INNOVATIVE SOLUTIONS

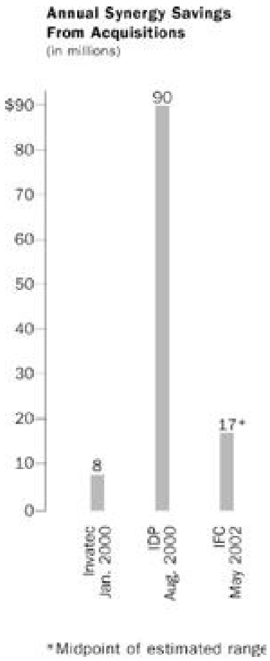
We're taking our alliance approach to service one step further with Flowstar—a new solutions approach to facility maintenance.

We offer Flowstar.net—a database that catalogs the history of the equipment in a customer's facility. Currently in place at approximately 100 sites, Flowstar.net is a Web-based measurement tool that tracks our performance as part of our alliance with our customers. We also offer a condition monitoring service as an add-on to our fixed fee agreements. Using automation and instrumentation from Rockwell, we're able to analyze various conditions including vibrations, temperatures and oil levels in order to give customers an early warning of potential equipment failures. Finally, we offer remote monitoring and diagnostics as a stand-alone solution. Our data acquisition tool monitors conditions at a remote site and transmits the data to Flowserve technicians for analysis.

We believe the ability to provide exceptional service separates Flowserve from its competitors. Our vision is to be an innovative service solutions provider for pumps, valves and seals.

Flowserve is an expert at rationalizing its manufacturing operations following acquisitions and realizing integration synergies.

We streamlined manufacturing.



After integrating three acquisitions in the past three years, we've learned how to realize hard synergies and real cost savings. In 2002, we eliminated more than 600,000 square feet of manufacturing space as we integrated IFC operations.

AN EXPERT IN INTEGRATION

As we consolidated facilities in 2002, we leveraged the lessons we learned in earlier integrations:

- We concentrated on the facilities receiving additional manufacturing volume as a result of the integration. We mapped out their critical processes—like order entry, material planning and manufacturing—to ensure they were robust enough to operate efficiently at higher volumes.

- We assembled an integration team whose members all have positions in our ongoing operations. With a long-term stake in the outcome, the team made the right decisions for the future of our business.

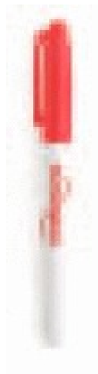
- We stayed focused on running the whole business, not just the integration of IFC. As a result, customer disruptions were minimized. If we did miss a delivery or a deadline, we pushed to expedite our processes to diminish the impact on our customers.

- We aggressively integrated suppliers across the combined operations and accelerated our push for low-cost materials purchasing.

As a result of our lessons learned, we estimate that the integration of IFC will produce $15 to 20 million in annual run-rate savings. We also benefited from lean manufacturing and continuous improvement concepts that were part of the IFC culture.

WORLD-CLASS MANUFACTURING

As we capitalize on our acquisition of IFC and continue to pursue our approach to operational excellence, we will continue to streamline manufacturing. Our goal is to further develop and refine our processes so that they set a world-class benchmark not just in the flow control industry, but among the best manufacturing companies in the world.



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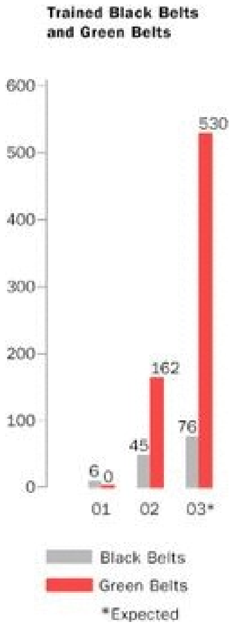
Flowserve is an organization committed to operational excellence.

20

We improved.



We graduated our first wave of black belts in the second quarter of 2002. We now have 45 full time experts in place—trained in the tools and processes of continuous improvement. We are taking the next step in 2003 by increasing our training program by more than 40 percent.

Our black belts will lead individual sites within our organization toward increased productivity. Our black belts led programs that realized $3 million in recurring productivity savings in 2002 alone.

OUR APPROACH TO CONTINUOUS IMPROVEMENT

At Flowserve, we're simultaneously pursuing five continuous improvement themes:

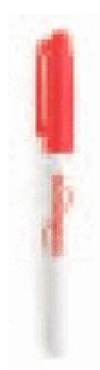
1. Lean enterprise—focused on eliminating waste and non-value-added activities anywhere in our organization.
2. Six Sigma—designed to reduce variation in processes and their outcomes.
3. Supplier integration—focused on bringing material and service suppliers into the continuous improvement fold.
4. Quality management—designed to ensure all productivity gains are measured, tracked and sustained over time.
5. Change management—focused on training individuals on how to lead positive change in an organization.

By tackling all the dimensions of continuous improvement at once, we believe we can make better trade-offs and implement optimal solutions as we redesign and refine our business processes.

COMMITTED TO OPERATIONAL EXCELLENCE

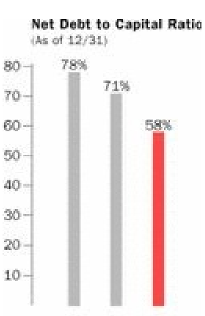
Using a unique training course, we are developing our top 100 managers into more effective sponsors of our continuous improvement projects. Using this targeted training, our leaders will be better able to ask the right questions, define projects and implement holistic change to our operations.

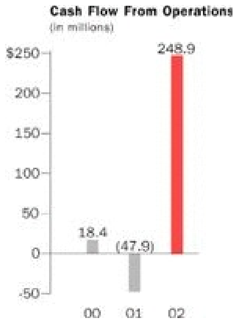
With each of our continuous improvement efforts—from the factory floor in Roosendaal, Netherlands to our executive offices in Dallas, Texas—we renew our commitment to operational excellence every single day.



Flowserve is a strong, financially sound business.

We continued to repay debt.



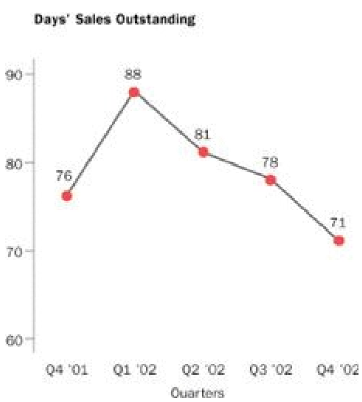


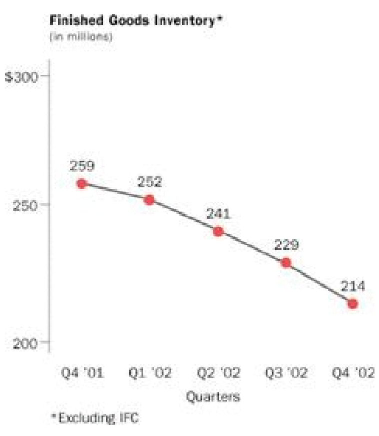
During 2002, we repaid $234 million of debt, including approximately $170 million of optional prepayments in the second half of the year. In addition, we completed a successful equity offering to help finance our acquisition of IFC in May 2002. As a result, our net debt-to-capital ratio improved to 58 percent at the end of 2002, from 71 percent at year-end 2001 and 78 percent at year-end 2000. During 2002, Moody's upgraded our debt ratings and we significantly reduced interest expense.

Our cash flow was strong in 2002 and we expect it to remain so. Operating cash flow in 2002 was $248.9 million. Reducing working capital generated $89.7 million of cash flow in 2002. Improvement in accounts receivable generated $76.5 million of cash flow and helped improve our days' sales outstanding. Reduction in inventories generated $22.5 million of cash flow, due in part, to the significant decline in finished goods inventories.

We reduced operating expenses. We continue to expect that the integration of IFC will deliver $15 to 20 million in annual run-rate savings. Our continuous improvement program identified $3 million in productivity savings in 2002 alone.

Our company's debt reduction program is ahead of schedule and our business model is working. Increasing working capital utilization remains a priority. We remain committed to operational excellence. We will continue to use cash from operations to strengthen our balance sheet. Our target capital structure is a net debt-to-capital ratio of 50 percent or less and we're confident we can reach this target within the next two years.





The steps we took in 2002—and the steps we as a management team take every year—define who we are and where we are going. We will continue to take the right steps to ensure Flowserve is ready to compete and win today and in the future.

From left: **Rory E. MacDowell,** Vice President and Chief Information Officer; **Mark D. Dailey,** Vice President, Supply Chain and Continuous Improvement; **Thomas E. Ferguson,** Vice President, Division President, Flow Solutions Division; **David F. Chavenson,** Vice President and Corporate Treasurer; **Kathleen A. Giddings,** Vice President and Corporate Controller; **Sean S. Clancy,** Vice President, Corporate Communications; **Cheryl D. McNeal,** Vice President, Human Resources; **C. Scott Greer,** Chairman, President and Chief Executive Officer; **Renée J. Hornbaker,** Vice President and Chief Financial Officer; **Ronald F. Shuff,** Vice President, Secretary and General Counsel; **J.B. Nowlin,** Vice President, Tax; **George A. Shedlarski,** Vice President, Division President, Flow Control Division; **Carlos M. Cardoso,** Vice President, Division President, Flowserve Pump Division; **John H. Jacko, Jr.,** Vice President, Marketing and Customer Management

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Flowserve Corporation

Financial Review

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders of
Flowserve Corporation

In our opinion, the accompanying consolidated balance sheets as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity and cash flows present fairly, in all material respects, the financial position of Flowserve Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002. Additionally, as discussed in Note 8 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative and Hedging Activities" on January 1, 2001.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Dallas, Texas
February 3, 2003

REPORT OF MANAGEMENT

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

C. Scott Greer	Renée J. Hornbaker	Kathleen A. Giddings
Chairman, President and Chief Executive Officer	Vice President and Chief Financial Officer	Vice President and Chief Accounting Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that the Company's consolidated financial statements provide a meaningful and fair perspective of the Company. This is not to suggest that other general risk factors, such as changes in worldwide growth objectives, changes in material costs, performance of acquired businesses and others, could not adversely impact the Company's consolidated financial position, results of operations and cash flows in future periods.

The process of preparing financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond the Company's control change. Accordingly, actual results could differ materially from those estimates. The most significant estimates made by management include the allowance for doubtful accounts, reserves for excess and obsolete inventories, deferred tax asset valuation allowances, restructuring accruals, legal and environmental accruals, warranty accruals, insurance accruals, pension and postretirement benefit obligations, valuation of goodwill and other long-lived assets, and the expense associated with stock-based compensation. The significant estimates are reviewed quarterly with the Company's Audit/Finance Committee. The following is a discussion of the critical accounting policies and the related management estimates and assumptions necessary in determining the value of related assets or liabilities.

REVENUE RECOGNITION

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are stated net of the allowance for doubtful accounts.

The allowance for doubtful accounts is established based on estimates of the amount of uncollectible accounts receivable. The amount of the allowance is determined based upon the aging of the receivable, customer credit history, industry and market segment information, economic trends and conditions, credit reports and customer financial condition. Customer credit issues, customer bankruptcies or general economic conditions can affect the estimates.

Credit risk may be mitigated by the large number of customers in the Company's customer base across many different geographic regions and an analysis of the creditworthiness of such customers. Additionally, the Company maintains a credit insurance policy for its European subsidiaries. Under the policy, the Company generally receives funds from the third party insurer, net of deductible, in instances where customers covered by the policy are unable to pay.

INVENTORIES

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

for other inventories by the first-in, first-out (FIFO) method. Reserves for excess and obsolete inventories are based on an assessment of slow-moving and obsolete inventories, determined by historical usage and estimated future demand. These estimates are generally not subject to significant volatility, except for product rationalizations generally associated with acquisition integration programs, due to the relatively long life cycle of the Company's products.

DEFERRED TAX ASSET VALUATION

Deferred tax assets and liabilities are established based on the profits or losses in each jurisdiction in which the Company operates. Associated valuation allowances reflect the likelihood of the recoverability of any such assets. The judgment of the recoverability of these assets is based primarily on the historical and current earnings, and on estimates of future earnings and prudent and feasible tax planning strategies. These estimates could be impacted by changes in amounts and composition of future taxable income and the results of tax strategies.

RESTRUCTURING RESERVES

Restructuring reserves are generally established in conjunction with an acquisition. Such reserves reflect many estimates including costs pertaining to employee separation, settlements of contractual obligations and other matters associated with exiting a facility. Restructuring costs related to facilities and employees of an acquired business generally become a component of goodwill, whereas non-acquisition related restructuring costs are recorded as restructuring expense in the statement of operations. Reserve requirements for each restructuring plan are assessed quarterly and susceptible to adjustment due to revisions of cost estimates and other changes in planned restructuring activities.

LEGAL AND ENVIRONMENTAL ACCRUALS

The costs relating to legal and environmental liabilities are estimated and recorded when it is probable that a loss has been incurred and such loss is estimable. The Company has a formal process for assessing the facts and circumstances and recording such contingencies on a case-by-case basis. Assessments of legal and environmental costs are based on information obtained from the Company's independent and in-house experts and the Company's loss experience in similar situations. The estimates may vary in the future due to new developments regarding the facts and circumstances of each matter.

WARRANTY ACCRUALS

Warranty obligations are based upon product failure rates, materials usage and service delivery costs. The Company estimates its warranty provisions based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. The estimates of expected claims are generally a factor of historical claims. Changes in claim rates, differences between actual and expected warranty costs and the Company's facility rationalization activities could impact warranty obligation estimates.

INSURANCE ACCRUALS

Insurance accruals are recorded based upon an analysis of the Company's claim loss history, insurance deductibles, policy limits and an estimate of incurred but not reported claims. The estimates are based upon information received from the insurance company adjusters. Changes in claims and differences between actual and expected claim losses could impact the accrual in the future.

PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS

Determination of the value of the pension and postretirement benefits liabilities is based on actuarial valuations. Inherent in these valuations are key assumptions including discount rates, market value of plan assets, expected return on plan assets, life expectancy and assumed rate of increase in wages or in health care costs. Current market conditions, including changes in rates of returns, interest rates and medical inflation rates are considered in selecting these assumptions. Changes in the related pension and postretirement benefit costs may occur in the future due to changes in the assumptions used and changes resulting from fluctuations in the Company's related headcount.

VALUATION OF GOODWILL, INDEFINITE-LIVED INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

The value of the Company's goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter or whenever events or circumstances indicate such assets may be impaired. The test involves significant judgment in estimating projections of fair value generated through future performance of each of the Company's reporting units which correlate to the Company's operating segments. The net realizable value of other long-lived assets, including property, plant and equipment, is reviewed periodically, when indicators of potential impairments are present, based upon an assessment of the estimated future cash flows related to those assets.

Due to uncertain market conditions and potential changes in strategy and product portfolio, it is possible that forecasts used to support asset carrying values may change in the future, which could result in non-cash charges that would adversely affect the Company's results of operations and financial condition.

STOCK-BASED COMPENSATION

The Company accounts for its stock option compensation for employees and directors using the intrinsic-value method. All options granted by the Company have an exercise price equal to or in excess of the market price of the underlying stock on the date of grant, therefore, no compensation expense is recognized under the intrinsic-value method of accounting. Awards of restricted stock are valued at the market price of the Company's common stock on the date of grant and recorded as unearned compensation within shareholder's equity. The unearned compensation is amortized to compensation expense over the vesting period of the restricted stock.

See the Accounting Developments section of this Management's Discussion and Analysis for additional information surrounding the recently issued SFAS No. 148.

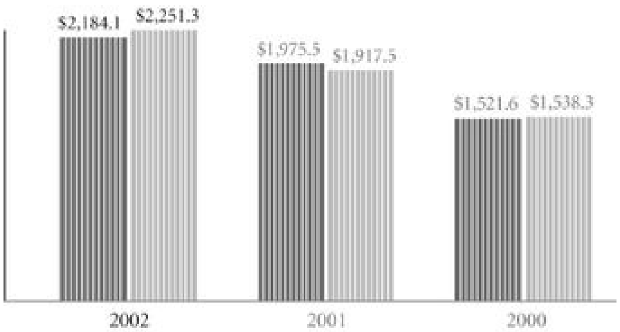
RESULTS OF OPERATIONS

In general, 2002 consolidated results and the Flow Control Division results were higher than the corresponding period in the previous year due to the Company's acquisition of Invensys' flow control division (IFC) on May 2, 2002. The results for IFC subsequent to the date of acquisition are included in the results for the Company's Flow Control Division. The IFC acquisition is discussed in further detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis. Pro forma results for 2002 and 2001 referenced throughout this Management's Discussion and Analysis assume that the acquisition of IFC occurred on January 1, 2001 and include estimated purchase accounting and financing impacts.

In general, 2001 consolidated results and the Flowserve Pump Division results were higher than the corresponding period in 2000 due to the Company's acquisition of Ingersoll-Dresser Pump Company (IDP) in August 2000. Pro forma results in 2000 assume the acquisition of IDP took place on January 1, 2000.

All pro forma information is provided solely to enhance understanding of the operating results, not to purport what the Company's results of income 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.

SALES, BOOKINGS AND BACKLOG
(In millions of dollars)



SALES

	2002	2001	2000
		(In millions of dollars)	
Sales	**$ 2,251.3**	$ 1,917.5	$ 1,538.3
Pro forma sales, including IFC	**2,408.7**	2,442.2	n/a(1)

(1) Pro forma information related to IFC for 2000 is not available or required.

Sales increased 17.4% in 2002, compared with a 24.7% increase during 2001. The IFC acquisition, a higher volume of engineered project sales in the petroleum and water markets and an increased sales volume of mechanical seals positively impacted sales in 2002. Sales on a pro forma basis, including IFC, decreased 1.4% during 2002, reflecting the weakness in the quick turnaround business to the chemical, power, and general industrial sectors, partially offset by the aforementioned increases. The quick turnaround business is generally business that is booked and shipped within the same reporting period. Chemical and industrial pumps, valves and mechanical seals and related services are most dependent on this book and ship business. The Company believes that the weakness in this business is due to customer deferrals of plant turnarounds and a lower level of capacity utilization due to partial or complete plant closures.

The sales increase in 2001 from 2000, was largely due to the acquisition of IDP which was offset partially by lower sales volumes to chemical and general industrial customers due to weakness in the U.S. economy. Additionally, unfavorable currency translation the divestiture of product lines pursuant to the IDP acquisition and closure or sale of several service operations, negatively impacted sales in 2001.

Net sales to international customers, including export sales from the U.S., increased to 56% of sales in 2002, compared with 48% in 2001 and 38% in 2000. IFC's proportionately higher mix of international operations contributed to the increase in 2002, while the impact of IDP's international operations resulted in the 2001 increase.

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

BOOKINGS AND BACKLOG

	2002	2001	2000
		(In millions of dollars)	
Bookings	**$ 2,184.1**	$ 1,975.5	$ 1,521.6
Pro forma bookings, including IFC	**2,326.2**	2,507.6	n/a(1)
Backlog	**733.7**	662.8	659.3
Pro forma backlog, including IFC	**733.7**	780.1	n/a(1)

(1) Pro forma information related to IFC for 2000 is not available or required.

Bookings, or incoming orders for which there are customer purchase commitments, increased 10.5% in 2002 largely due to the IFC acquisition. Bookings on a pro forma basis decreased in 2002 by 7.2%, which is primarily related to reduced demand for products and services to chemical, power and general industrial customers.

Bookings increased in 2001 from 2000 largely due to the full year impact of the IDP acquisition. The increase was offset in part by declines in business due to weakness in the U.S. economy which impacted the chemical and general industrial sectors of the business most significantly in the second half of 2001.

Backlog in 2002 increased 10.7%, largely due to the IFC acquisition. On a pro forma basis, including IFC, backlog decreased 5.9% primarily due to lower bookings in the chemical, power and general industrial sectors despite the booking of several large project orders in 2002.

BUSINESS SEGMENTS

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

Effective July 1, 2002, the Company realigned its operating segments. The reorganization was undertaken to strengthen end user focus within the segments. Under the new organization, the Flow Solutions Division includes the Company's seal operations, while the Company's pump service and valve service businesses are now managed and thus included in the Flowserve Pump Division and Flow Control Division, respectively. Segment information reflects the new organizational structure for all periods presented.

The Company evaluates segment performance based on operating income excluding special items. Special items included in operating income during each of the three years in the period ended December 31, 2002 are generally associated with the acquisitions of IFC and IDP and include the following:

	Year ended December 31,		
	2002	2001	2000
	(In millions of dollars)		
Integration expense	**$ 16.2**	$ 63.0	$ 35.2
Restructuring expense	**4.3**	(1.2)	19.4
Purchase accounting adjustment for inventory	**5.2**	—	—
Total	**$ 25.7**	$ 61.8	$ 54.6

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

	Flowserve Pump Division		
	2002	2001	2000
	(In millions of dollars)		
Sales	**$ 1,204.6**	$ 1,170.2	$ 808.6
Pro forma sales, including IDP	**1,204.6**	1,170.2	1,185.0
Operating income (before special items)	**134.7**	144.5	89.7
Pro forma operating income (before special items) including IDP	**134.7**	144.5	83.3
Operating income (before special items) as a percentage of sales	**11.2%**	12.3%	11.1%

Sales of pumps, pump parts and related services for the Flowserve Pump Division (FPD) increased by 2.9% during 2002 and by 44.7% during 2001. The increase in 2002 was largely due to higher sales of engineered pumps for the petroleum and water markets due in part to a higher backlog at the beginning of 2002. These improvements were partially offset by a lower volume of industrial pumps and service sales to the chemical, power and general industrial markets. The declines in sales to the chemical, power and general industrial sectors were generally due to a lower level of profitability and capacity utilization by the customers. These factors lead to reduced demand as well as some deferred spending by these customers.

The sales increase in 2001 was due to full year inclusion of the IDP acquisition. The slight decrease during 2001 compared with 2000 pro forma sales, including IDP, generally resulted from weakness in the U.S. economy which impacted quick turnaround sales of industrial pumps to the chemical and general industrial businesses, unfavorable currency and divestiture of product lines pursuant to the IDP acquisition.

FPD operating income, before special items, decreased 6.7% in 2002, compared with a 61.1% increase in 2001. Operating income in 2002 benefited by $14.0 million from the implementation of SFAS No. 141 and No. 142, but decreased overall due to declines in quick turnaround chemical, power and general industrial businesses, which historically are more profitable than the engineered pump projects. In addition, unfavorable manufacturing burden variances impacted results due to lower production volumes and reductions in finished goods inventory in the facilities that manufacture pumps for the chemical, power and general industrial sectors. The reported and pro forma operating income, before special items, increases in 2001 from 2000 primarily resulted from the synergy savings realized from the IDP integration activities, which included the reduction of overlapping sales coverage and the closure and significant downsizing of a number of pump plants.

	Flow Solutions Division		
	2002	2001	2000
	(In millions of dollars)		
Sales	**$ 350.7**	$ 328.0	$ 327.4
Operating income	**64.7**	51.5	46.6
Operating income as a percentage of sales	**18.4%**	15.7%	14.2%

Sales of seals for the Flow Solutions Division (FSD) increased by 6.9% in 2002, compared with a 0.2% increase in 2001. The 2002 increase, despite generally weakened market conditions, reflects the division's emphasis on end user business and its success in establishing customer alliances including longer term fixed fee agreements. The Company believes that this emphasis combined with a focus on customer responsiveness has contributed to an increase in market share.

Sales for 2001 compared with 2000 were relatively flat as unfavorable currency translation effects associated with the Euro offset sales volume increase.

FSD operating income increased 25.6% in 2002 compared with an increase of 10.5% in 2001. The improvement reflects the benefit of higher sales and the impact of continuous improvement process projects in both years. Additionally, increases in plant efficiencies resulted from the bringing in-house of previously outsourced production at generally only variable cost. Operating income in 2002 benefited by $1.2 million from the implementation of SFAS No. 141 and No. 142. Operating income as a percentage of sales increased sequentially over the past three years, reflecting the full year inclusion of continuous improvement process initiatives and the benefit of the restructuring of the North American seal business, which resulted in the closure of a major North American facility and increased capacity in Mexico.

	Flow Control Division		
	2002	2001	2000
	(In millions of dollars)		
Sales	**$ 726.4**	$ 451.5	$ 440.1
Pro forma sales, including IFC	**883.7**	976.2	n/a(1)
Operating income (before special items)	**48.4**	39.2	39.7
Pro forma operating income (before special items) including IFC	**65.3**	119.1	n/a(1)
Operating income (before special items) as a percentage of sales	**6.7%**	8.7%	9.0%

(1) Pro forma information related to IFC for 2000 is not available or required.

Sales of valves and related products and services for the Flow Control Division (FCD) increased by 60.9% in 2002 primarily due to the acquisition of IFC, compared with a 2.6% increase in 2001. On a pro forma basis for 2002, including IFC, sales decreased 9.5% due to decreased customer demand for valve products and services in the chemical, power and general industrial sectors. Sales in 2001 increased slightly over 2000 primarily due to increased service opportunities despite the impact of unfavorable currency translation and the slowdown in quick turnaround manual valve sales during the second half of 2001.

FCD operating income, before special items, during 2002 increased 10.2%, compared with a 1.3% decrease in 2001. Operating income, before special items, in 2002 benefited by $4.4 million from the implementation of SFAS No. 141 and No. 142. The decline in operating results on a pro forma basis reflects weak conditions in the chemical, power and general industrial markets, as well as lower production throughput due to lower sales volume combined with a reduction of finished goods inventories, which resulted in unfavorable manufacturing absorption variances. The decline in operating income, before special items, in 2001 from 2000 reflects a less profitable product mix.

CONSOLIDATED RESULTS

Gross profit increased 11.5% to $685.5 million in 2002, compared with $614.6 million in 2001 reflecting the 2002 acquisition of IFC. The gross profit margin was 30.5% for 2002, compared with 32.0% for 2001. On a pro forma basis for 2002 and 2001, including IFC, gross profit was $738.3 million and $794.7 million, which yielded gross profit margins of 30.7% and 32.5%, respectively. Gross profit margin was negatively impacted by an unfavorable product mix of higher sales volumes of lower margin project business and a lower mix of historically more profitable quick turnaround business, including lower volumes of chemical and industrial pumps, industrial valves and service related activities. In addition, gross profit was adversely impacted by unfavorable manufacturing absorption variances, which were attributable to lower production throughput due to lower sales volumes and efforts to reduce finished goods inventories at the facilities that manufacture products for the chemical and general industrial markets. Gross profit and related margin were also impacted in 2002 by a negative

$5.2 million purchase accounting adjustment associated with the required write-up and subsequent sale of inventory resulting from the acquisition of IFC. Implementing SFAS No. 141 and No. 142 improved gross profit by $1.4 million for 2002.

Gross profit increased by 21.2% in 2001 from 2000. The improvement primarily resulted from the full year impact of the IDP acquisition and IDP manufacturing integration synergies that resulted from closing or significantly downsizing a number of pump manufacturing facilities and a number of service and repair facilities. The benefits were partially offset by a less profitable product mix of chemical process pumps, manual valves and service which was caused by a slowdown in the quick turnaround business.

Selling, general and administrative expense was $476.9 million in 2002, $410.6 million in 2001 and $360.3 million in 2000. The increase in 2002 primarily reflects the impact of the IFC acquisition offset in part by the $18.3 million benefit of implementing SFAS No. 141 and No. 142. As a percentage of sales, selling, general and administrative expense was 21.2% compared with 21.4% in 2001. Selling general and administrative expense in 2002 and 2001 on a pro forma basis, including IFC, was $512.8 million and $517.7 million, which represented 21.3% and 21.2% of such amounts as a percentage of pro forma sales. The 200 basis-point decrease in the 2001 percentages from the 2000 percentages is generally due to IDP integration savings, resulting from sales force reductions, the IDP headquarters closure, and a reduction in incentive compensation due to lower than planned performance and other cost reduction initiatives.

Operating income of $188.1 million increased 32.3% in 2002 from $142.2 million in 2001. The increase in operating income reflects the IFC acquisition, the benefit of SFAS No. 141 and No. 142 and reduced integration expenses. Operating income benefited by $19.7 million in 2002 from the implementation of SFAS No. 141 and No. 142. These benefits were offset in part by market related factors including a less favorable product mix resulting in lower demand for products and services for chemical, power and general industrial markets. Additionally, unfavorable absorption variances from the lower volume and reduction in finished goods inventories negatively impacted operating income. On a pro forma basis for 2002 and 2001, including IFC, operating income was $203.1 million and $202.6 million, or 8.4% and 8.3%, respectively, as a percentage of sales. Operating income improved 54.4% in 2001 from 2000 reflecting the synergy benefits from the IDP acquisition. Operating income in 2001 reflected the full year benefits of the IDP acquisition as well as its related synergy benefits.

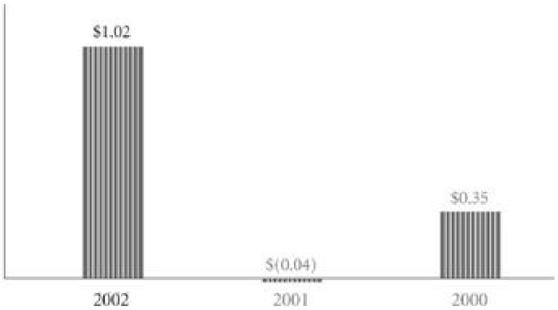
Restructuring expense of $4.3 million and integration expense of $16.2 million were recognized in 2002 related to the integration of IFC into the Flow Control Division. Restructuring expense represents severance and other exit costs directly related to Flowserve facility closures and reductions in work force. Integration expense represents period costs associated with acquisition-related reorganizations such as relocation of product lines from closed to receiving facilities, realignment of receiving facilities, performance and retention bonuses, idle manufacturing costs, costs related to the integration team and asset impairments. Integration expense of $63.0 million in 2001 and $35.2 million in 2000 related to the integration of IDP into the Flowserve Pump Division. See the section titled Restructuring and Acquisition Related Charges in this Management's Discussion and Analysis for further discussion of restructuring and integration expense.

Net interest expense declined 21.3% to $92.9 million in 2002, compared with $118.1 million in 2001 and $70.3 million in 2000. The reduction of net interest expense in 2002 resulted from lower debt levels associated with the repayment of one-third of the then outstanding Senior Subordinated Notes in the fourth quarter of 2001 with proceeds from a sale of the Company's common shares, lower borrowing spreads associated with the renegotiation of the Company's revolving credit facility and lower interest rates on the Company's variable rate debt. Approximately 65% of the Company's debt was variable rate debt at December 31, 2002. Interest expense declined despite approximately $274 million of incremental borrowings associated with the IFC acquisition due to lower interest rates and $234 million of debt repayments during the year. Increased interest expense in 2001 from 2000 reflected a full year of interest costs associated with the financing of the IDP acquisition partially offset by the benefit of lower interest rates on the Company's variable rate debt.

The Company's effective tax rate for 2002 was 34.4%, compared with 36.2% in 2001 and 34.0% in 2000. The reduction primarily reflects the elimination of goodwill amortization, resulting from the implementation of SFAS No. 141 and No. 142, which was not deductible for income tax purposes. The increase in 2001 from 2000 reflects IDP's mix of business conducted in foreign taxing jurisdictions with higher tax rates. The effective tax rate is based upon historical and current earnings, and on estimates of future taxable earnings for each domestic and international location as well as the estimated impact of tax planning strategies. Changes in any of these and other factors could impact the tax rate in future periods.

During 2002, the Company recognized extraordinary expenses of $7.4 million, net of tax, or $0.14 per share compared with $17.9 million or $0.46 per share for 2001. These expenses relate to the write-off of unamortized prepaid financing fees and other related fees resulting from the debt amendments required pursuant to the IFC acquisition during the second quarter and from the optional debt repayments during the third and fourth quarters of 2002. The 2001 extraordinary item related to the prepayment premium, other direct costs and write off of unamortized prepaid financing fees and discount as a result of the early extinguishments of $133 million of 12.25% Senior Subordinated Notes, using proceeds from a sale of the Company's common shares. In 2000, the Company recognized a net of tax extraordinary expense which totaled $2.1 million or $0.05 per share, related to the repayment of its outstanding indebtedness which was required as part of the financing to acquire IDP.

EARNINGS PER SHARE



Net earnings increased in 2002 to $53.0 million, or $1.02 per share, compared with a loss of $1.5 million ($0.04 per share) in 2001 and earnings of $13.2 million ($0.35 per share) in 2000. The improvement in earnings in 2002 reflects the IFC acquisition, benefit of SFAS No. 141 and No. 142 and reduced interest, integration and restructuring expenses. The implementation of SFAS No. 141 and No. 142 resulted in an increase of $14.3 million or $0.28 per share, to earnings in 2002. Special items in 2002 negatively impacted net earnings by $0.46 per share, including the $0.14 per share extraordinary loss. Special items in 2001 negatively impacted net earnings by $1.57 per share. Earnings in 2001 benefited from IDP synergies. However, higher interest, integration costs and the aforementioned extraordinary items more than offset those benefits.

Average diluted shares increased by 32.8% to 52.2 million for 2002, compared with 39.3 million in 2001 and 37.8 million in 2000. The 2002 increase in shares reflects the average weighted impact from the equity offering completed in April 2002 to finance the IFC acquisition and the full year impact of the equity offering completed in November 2001, the proceeds of which were used to retire debt. The increase in 2001 compared with 2000 reflects the partial year impact from the November 2001 equity offering.

Comprehensive income improved to $48.7 million from $(59.4) million in 2001 and $(8.6) million in 2000. The 2002 improvement reflects improved net earnings and a favorable foreign currency translation adjustment resulting from the strengthening of the Euro, partially offset by declines in the value of pension plan assets. The decrease in comprehensive income in 2001 from 2000 resulted from decreased net earnings, increased minimum pension expense and weakening of the Euro and Latin American currencies.

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

RESTRUCTURING AND ACQUISITION RELATED CHARGES

IFC ACQUISITION

In conjunction with the IFC acquisition during 2002, the Company initiated an integration program designed to reduce costs and eliminate excess capacity by closing seven valve facilities and reducing sales and related support personnel. The Company's actions, approved and committed to in 2002, are expected to result in a gross reduction of approximately 921 positions and a net reduction of approximately 623 positions. Through December 31, 2002, 442 gross positions and 268 net positions had been eliminated pursuant to the program. Net run rate cost savings associated with the integration program were $12 million at December 31, 2002 and are expected to increase to up to $20 million annually when the program is fully complete.

Concurrent with the acquisition, the Company established a restructuring reserve of $11.0 million in the second quarter of 2002, and increased the reserve by $2.8 million and $6.8 million in the third and fourth quarters of 2002 for this program. The Company expects to pay for the majority of the remaining reductions and closures in 2003. Costs associated with the closure of Flowserve facilities of $4.3 million in 2002 have been recognized as a restructuring expense in the statement of operations. The Company also recognized a restructuring reserve consisting of $16.3 million of costs and related deferred taxes of $5.1 million. Such costs related to the closure of IFC facilities became part of the purchase price allocation of the transaction. The effect of these closure costs increased the amount of goodwill otherwise recognizable as a result of the IFC acquisition.

The following illustrates activity related to the IFC restructuring reserve:

	Severance	Other Exit Costs	Total
	(Amounts in thousands)		
Balance created on June 5, 2002	$ 6,880	$ 4,160	$ 11,040
Additional accruals	6,896	2,736	9,632
Cash expenditures	(3,037)	(1,241)	(4,278)
Balance at December 31, 2002	$ 10,739	$ 5,655	$ 16,394

During 2002, the Company also incurred integration expense in conjunction with this program, which is summarized below:

		December 31, 2002
		(Amounts in millions)
Cash expense	$	**15.1**
Non-cash expense		**1.1**
Total expense	$	**16.2**

Additional restructuring and integration expense related to the IFC acquisition are expected in subsequent periods. The impact of additional restructuring activities will be recorded as obligations are incurred under these programs. Total restructuring and integration costs are expected to be approximately three times annual run rate integration savings.

IDP ACQUISITION

In August 2000, in conjunction with the acquisition of Ingersoll-Dresser Pump Company (IDP), the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities.

The Company recognized $65 million in restructuring cost, comprised of approximately $42 million related to the IDP operations acquired and $23 million related to Flowserve operations. The $42 million related to IDP operations, reduced by deferred tax effects of $16 million, resulted in recognition of $26 million of incremental goodwill. The $23 million related to Flowserve operations was recognized as restructuring expense in the consolidated statement of operations.

The following illustrates activity related to the IDP restructuring reserve:

		Severance		Other Exit Costs		Total
				(Amounts in thousands)		
Balance at August 16, 2000	$	45,980	$	14,832	$	60,812
Cash expenditures		(18,645)		(2,434)		(21,079)
Net non-cash reduction		(8,849)		—		(8,849)
Balance at December 31, 2000		18,486		12,398		30,884
Cash expenditures		(13,267)		(6,712)		(19,979)
Net non-cash reduction		(2,817)		(2,567)		(5,384)
Balance at December 31, 2001	$	2,402	$	3,119	$	5,521
Cash expenditures		(801)		(1,046)		(1,847)
Net non-cash reduction		(1,601)		(2,073)		(3,674)
Balance at December 31, 2002	**$**	—	**$**	—	**$**	—

During 2001 and 2000, the Company also incurred integration expense of $63.0 million and $35.2 million, respectively, associated with the IDP acquisition. The non-cash reductions to the reserve generally relate to reclassifications to retirement benefit obligations and other liabilities, offset by increases to the reserve for changes in estimated restructuring costs. The Company completed its integration and restructuring activities in 2001, and the majority of the expenditures were completed as of December 31, 2002.

The restructuring and integration activities associated with the IDP acquisition resulted in the elimination of approximately 1,100 net positions and have resulted in approximately $90 million of annual run rate savings.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ANALYSIS

Cash generated by operations and borrowings available under the Company's existing revolving credit facility are its primary sources of short-term liquidity. Cash flows provided by operating activities in

2002 were $248.9 million, reflecting an improvement of $296.8 million compared with a use of funds of $47.9 million in 2001 and cash provided of $18.4 million in 2000. The Company's cash balance at December 31, 2002 was $49.3 million, an increase of $27.8 million from year-end 2001.

The improved operating cash flow in 2002 reflects higher earnings due to lower interest expense, lower acquisition-related integration and restructuring costs and improved working capital utilization in 2002 compared with the prior year. In particular, reductions in accounts receivable generated $76.5 million of operating cash flow in 2002, which included a $20 million benefit of foreign factoring programs. As a result of reductions in accounts receivable, days' sales outstanding at December 31, 2002 improved to 71 days compared with 76 days at December 31, 2001. Inventory reductions, primarily finished goods, generated $22.5 million of cash during 2002. Also, cash flows from operations in 2002 benefited from a $23 million tax refund related to the utilization of net operating loss carrybacks enabled by recently enacted tax law amendments in the United States.

Cash flows from operating activities for 2001 were significantly below 2000 cash flows, generally due to payments associated with the IDP integration program, including restructuring and integration payments, higher interest payments attributable to the August 2000 acquisition of IDP and increases in working capital. The primary reasons for the increase in working capital were an increase in inventories in support of backlog for future shipments and increased finished goods safety stock to meet customer deliveries during the integration process and during a systems conversion at a valve plant. At December 31, 2001, the Company had drawn $70.0 million of revolving credit primarily to fund integration activities and increases in working capital. The Company estimates that cash flows from operating activities would have provided approximately $6 million in 2001 if not for funding the costs of the restructuring activities, integration of IDP and the extraordinary items.

The Company believes cash flows from operating activities combined with availability under its existing revolving credit agreement will be sufficient to enable the Company to meet its cash flow needs for the next 12 months. However, cash flows from operations could be adversely affected by economic, political and other risks associated with sales of the Company's products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors.

During 2002, the Company also generated $16.9 million of cash flow related to exercise of employee stock options, which are reflected in financing activities of the consolidated statement of cash flows.

Although no contributions were required in 2002, the Company expects to contribute at least $16.8 million and up to $47.7 million into its domestic pension plan funds during 2003. The funding is required primarily as a result of the decline in the value of the pension plan assets due to negative market returns over the past two years and an increase in the number of plan participants primarily due to the IDP and IFC acquisitions. The amount of funding during 2003 will be dependent upon the desired funding status, pension asset returns and the Company's results of operations and cash flows during 2003.

PAYMENTS FOR ACQUISITIONS

On May 2, 2002, the Company completed its acquisition of Invensys plc's flow control division (IFC) for an aggregate purchase price of $535 million, subject to adjustment pursuant to the terms of the purchase and sale agreement. By acquiring IFC, one of the world's foremost manufacturers of valves, actuators and associated flow control products, Flowserve believes that it is the world's second largest manufacturer of valves. The Company financed the acquisition and associated transaction costs by issuing 9.2 million shares of common stock in April 2002 for net proceeds of approximately $276 million and through new borrowings under its senior secured credit facilities.

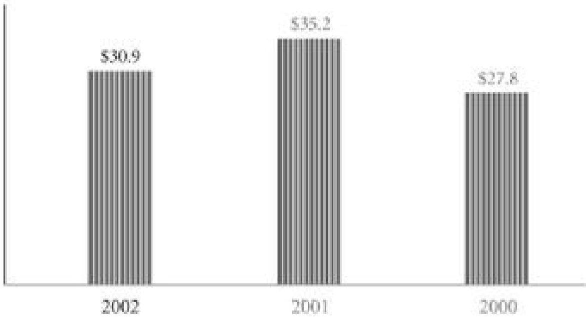
The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair value at the date of the acquisition. These allocations include $45.3 million for amortized intangibles, $28.4 million of indefinite lived intangible assets and $288.9 million recorded as goodwill.

The purchase price allocation for the IFC acquisition may require further refinements pursuant to the terms of the purchase and sale agreement. The Company is awaiting finalization of the beginning balance sheet including related deferred taxes, which the Company expects to finalize during the second quarter of 2003. The operating results of IFC have been included in the consolidated statements of operations from May 2, 2002, the date of acquisition.

The Company regularly evaluates acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition is a critical consideration in any such evaluation.

Capital Expenditures

(In millions of dollars)



Capital expenditures were $30.9 million in 2002, compared with $35.2 million in 2001 and $27.8 million in 2000. Capital expenditures were funded primarily by operating cash flows and bank borrowings. For each of the three years, capital expenditures were invested in new and replacement machinery and equipment, information technology and acquisition integration activities including structures and equipment required at receiving facilities. Cash proceeds from the disposal of fixed assets were $8.7 million in both 2002 and 2001 compared with $5.4 million in 2000. These disposals relate primarily to the sale of facilities and equipment that became obsolete as a result of the Company's acquisition integration-related programs.

FINANCING

Debt, including capital lease obligations, consisted of:

	December 31,	
	2002	2001
	(Amounts in thousands)	
Term Loan Tranche A, interest rate of 3.94% and 5.19% (Euro) in 2002 and 4.69%, 4.88% and 5.06% in 2001	**$ 259,265**	$ 257,078
Term Loan Tranche B, interest rate of 5.63% and 5.81% in 2001	**—**	469,842
Term Loan Tranche C, interest rate of 4.19% in 2002	**580,473**	—
Senior Subordinated Notes, interest rate of 12.25%	**253,988**	243,370
Revolving credit agreement, interest rate of 3.94% in 2002 and 4.69% in 2001	**—**	70,000
Capital lease obligations and other	**632**	455
	1,094,358	1,040,745
Less amounts due within one year	**38,610**	44,523
Total debt due after one year	**$ 1,055,748**	$ 996,222

Maturities of debt, including capital lease obligations, for the next five years and beyond are:

	Term Loans	Senior Subordinated Notes	Capital Lease & Other	Total
	(Amounts in thousands)			
2003	$ 38,564	$ —	$ 46	$ 38,610
2004	81,176	—	172	81,348
2005	86,365	—	—	86,365
2006	63,196	—	—	63,196
2007	83,641	—	—	83,641
Thereafter	486,796	253,988	414	741,198
Total	$ 839,738	$ 253,988	$ 632	$ 1,094,358

Senior Credit Facilities

During the second quarter of 2002, in connection with the IFC acquisition, the Company amended and restated its senior credit facilities, to provide for:

- an incremental Tranche A term loan in an aggregate principal amount of $95.3 million; and,
- a new Tranche C term loan facility of $700 million, to be used to repay all of the existing Tranche B term loan facility of $468.8 million, repay $11.3 million of the existing Tranche A term loan, reduce the then outstanding balance on the revolving credit facility by $40 million, and provide funds to be used to finance the IFC acquisition.

As part of the amended and restated senior credit facility, several covenants were modified, including various financial ratios, interest rates were adjusted and other terms of the facility were changed primarily to allow for the IFC acquisition. The senior credit facilities are collateralized by substantially all of the Company's domestic assets and a pledge of 65% of the stock of the foreign subsidiaries.

The term loans require scheduled principal payments, which began on June 30, 2001 for the Tranche A loan and on December 31, 2002 for the Tranche C loan. The Tranche A and Tranche C loans have ultimate maturities of June 2006 and June 2009, respectively. The term loans bear floating interest rates based on LIBOR plus a borrowing spread, or the prime rate plus a borrowing spread, at the option of the Company. The borrowing spread for the senior credit facilities can increase or decrease based on the leverage ratio as defined in the credit facility agreement and on the Company's public debt ratings. In 2002, the Company made $33.8 million of mandatory and $170.0 million of optional principal repayments on the term loans. Combined with a net reduction in its revolving credit line of $30 million, the Company made aggregate debt payments of $233.8 million in 2002.

As a result of the $170.0 million of optional debt prepayments during 2002, previously paid deferred financing fees were written off and recognized as an extraordinary loss of $1.1 million, after tax consideration, summarized as follows:

	3rd Quarter	4th Quarter	Total
	(Amounts in millions)		
Optional prepayment	$ 70.0	$ 100.0	$ 170.0
Extraordinary loss (net of tax)	0.5	0.6	1.1(1)

(1) Does not include the $6.3 million extraordinary loss associated with repayment of Tranche B during the second quarter of 2002, which yields total extraordinary losses of $7.4 million.

Under the senior credit facilities, the Company also has a $300 million revolving credit facility that expires in June 2006. The revolving credit facility also allows the Company to issue up to $200 million in letters of credit. As of December 31, 2002, there were no amounts outstanding under the revolving credit facility, however, $51.8 million of letters of credit had been issued under the facility, which reduced borrowing capacity of the facility to $248.2 million.

The Company is required, under certain circumstances as defined in the credit facility, to use a percentage of excess cash generated from operations to reduce the outstanding principal of the term loans in the following year. Because of the optional prepayments in 2002, no additional principal payments are due in 2003 under this provision.

Senior Subordinated Notes

At December 31, 2002, the Company had $188.5 million and EUR 65 million (equivalent to $68 million) in face value of Senior Subordinated Notes outstanding. These notes were issued during 2000 by the Company and its Dutch subsidiary, Flowserve Finance B.V. At the date of issuance, the Senior Subordinated Notes, due in August 2010, resulted in proceeds of $285.9 million (U.S. dollar Notes) or $290.0 million face amount less discount of $4.1 million and EUR 98.6 million (Euro Notes) or EUR 100 million face amount less discount of EUR 1.4 million, which then equated to $89.2 million. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and of Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and of 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 Senior Subordinated Notes were originally issued at a discount to yield 12.5%, but bear interest at 12.25%. Approximately one-third of these Senior Subordinated Notes were repurchased at a premium in 2001 utilizing proceeds of an equity offering. Beginning in August 2005, all remaining Senior Subordinated Notes outstanding become callable by the Company at 106.125% of face value. Interest on the Notes is payable semi-annually in February and August.

Common Stock Offerings

During 2002, the Company completed an offering of 9.2 million shares, which generated approximately $276 million of net proceeds. These proceeds were used to partially fund the IFC acquisition and to make additional repayments of the Company's borrowings under the senior credit facility.

During 2001, the Company completed an offering of approximately 6.9 million shares of its common stock for net proceeds of approximately $154 million, which were used to:

- prepay $101.5 million of the U.S. dollar tranche of the Senior Subordinated Notes;
- prepay EUR 35 million ($31 million) of the Euro tranche of the Senior Subordinated Notes; and
- pay associated prepayment premiums and other direct costs.

During 2001, the Company recorded an extraordinary item of $17.9 million, net of $7.1 million of tax, which represented the sum of the prepayment premiums, other direct costs, and the write-off of unamortized prepaid financing fees and discount for the portion of the Notes that was prepaid.

Debt Covenants and Other Matters

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

The provisions of the Company's senior credit facilities require it to meet or exceed specified defined financial covenants, including a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of these and other debt agreements generally limit or restrict indebtedness, liens, sale and leaseback transactions, asset sales, and payment of dividends, capital expenditures, and other activities. As of December 31, 2002, the Company was in compliance with all covenants under its debt facilities, as illustrated below:

- an actual leverage ratio of 3.54 compared with a permitted maximum of 4.0;
- an actual interest coverage ratio of 3.24 compared with a permitted minimum of 2.25; and
- an actual fixed charge ratio of 1.62 compared with a required minimum of 1.1.

During 2003, the maximum permitted leverage ratio declines to 3.75 at June 30 and 3.5 at December 31. In addition, the minimum permitted interest coverage ratio increases to 3.0 in September 2003.

While the Company expects to continue to comply with such covenants in the future, there can be no assurance that it will do so. The following is a summary of net debt to capital at various dates since 2000:

December 31, 2002	58.0%
September 30, 2002	60.5%
June 30, 2002	61.1%
March 31, 2002	70.0%
December 31, 2001	71.3%
December 31, 2000	78.1%

The net debt to capital ratio decreased due to the impact of the common stock offerings, repayments of term loans and revolving credit borrowings and increases in shareholders' equity resulting from improved earnings.

Although the ratio has improved over the past year, the Company has significant levels of indebtedness relative to shareholders' equity. While this ratio is not necessarily indicative of the Company's ability to raise funds, its level of indebtedness may increase its vulnerability to adverse economic and industry conditions, may require it to dedicate a substantial portion of cash flow from operating activities to payments on the indebtedness and could limit its ability to borrow additional funds and/or raise additional capital. While the IFC acquisition increased the absolute level of indebtedness, the Company believes that its ability to service its debt, as measured by various ratios, has improved due to IFC's level of earnings and cash flow generation.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of the Company's contractual obligations at December 31, 2002:

	Payments Due By Period				
	Within 1 Year	1-3 Years	4-5 Years	Beyond 5 Years	Total
	(Amounts in millions)				

Long-term debt and capital lease obligations	$ 38.6	$ 167.7	$ 146.9	$ 741.2	$ 1,094.4
Operating leases	20.6	25.0	10.3	4.6	60.5
Unconditional purchase obligations	—	—	—	—	—
Other contractual obligations	—	—	—	—	—

The following table presents a summary of the Company's commercial commitments at December 31, 2002:

	Commitment Expiration By Period				
	Within 1 Year	1-3 Years	4-5 Years	Beyond 5 Years	Total
	(Amounts in millions)				
Standby letters of credit	$ 149.0	$ —	$ —	$ —	$ 149.0
Surety bonds	63.0	3.1	12.7	1.1	79.9
Other commercial commitments	—	—	—	—	—

The Company expects to satisfy these commitments through its performance under its contracts.

PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS

The Company sponsors several defined benefit pension plans and postretirement health care plans. The Company's recorded liability for these plans was $272.9 million at December 31, 2002, $146.8 million at December 31, 2001 and $122.2 million at December 31, 2000. Determination of the value of the pension and postretirement benefits liabilities is based on actuarial valuations. Inherent in these valuations are key assumptions including discount rates, market value of plan assets, life expectancy, expected return on plan assets and assumed rate of increase in wages or in health care costs. Current market conditions, including changes in rates of returns, interest rates and medical inflation rates are considered in selecting these assumptions. Changes in the related pension and postretirement benefit costs may occur in the future due to changes in the assumptions used and changes resulting from fluctuations in the Company's related headcount. The

Company expects to fund contributions to the plans from operating cash flows. As a result of weak market performance of pension plan assets in 2002 and 2001 and increased employees participating in the Company's plans, the Company increased its minimum pension liability by $42.9 million during 2002 and $16.2 million in 2001, net of tax effects. Additionally, the Company expects to contribute a minimum of $16.8 million up to $47.7 million in to its domestic pension plans during 2003.

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

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

The Company's earnings are impacted by changes in short-term interest rates as a result of borrowings under its credit facility, which bear interest based on floating rates. At December 31, 2002, after the effect of interest rate swaps, the Company had approximately $714.7 million of variable rate debt obligations outstanding with a weighted average interest rate of 4.13%. A hypothetical change of 100-basis points in the interest rate for these borrowings, assuming constant variable rate debt levels, would have changed interest expense by approximately $7.1 million for 2002.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments including interest rate swaps, but it expects all counterparties to meet their obligations given their creditworthiness. As of December 31, 2002, the Company had $125.0 million of notional amount in outstanding interest rate swaps with third parties with maturities through November 2006.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. These strategies also minimize potential gains from favorable 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 a sensitivity analysis at December 31, 2002, a 10% adverse change in the foreign currency exchange rates could impact the Company's results of operations by $4.8 million. The primary currencies to which the Company has exposure are the Euro, British pound, Canadian dollar, Mexican peso, Japanese yen, Singapore dollar, Brazilian real, Australian dollar, Argentinean peso and Venezuelan bolivar.

Exposures are hedged primarily with foreign currency forward contracts that generally have maturity dates less than one year. Company policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, the Company does not enter into foreign currency contracts for trading purposes where the objective would be to generate profits. As of December 31, 2002, the Company had an U.S. dollar equivalent of $48.6 million in outstanding forward contracts with third parties compared with $69.4 million in 2001 and $103.9 million in 2000.

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

The Company incurred foreign currency translation gains (losses) of $38.8 million in 2002, $(37.6) million in 2001 and $(20.7) million in 2000. The currency gains in 2002 reflect strengthening of the Euro versus the U.S. dollar, partially offset by weakening of the Argentinean peso, Brazilian real and Venezuelan bolivar. The currency losses in 2001 and 2000 were the result of a general strengthening of the U.S. dollar versus the Euro and other currencies of the Company's foreign subsidiaries.

EURO CONVERSION

On January 1, 2002, Euro-denominated bills and coins were issued and 11 European Union member states (Germany, France, The Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Portugal and Luxembourg) adopted the Euro as their common national currency. After July 1, 2002, only the Euro is accepted as legal currency tender. The Company's financial condition, results of operations and cash flows were not materially impacted by the Euro conversion.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as required by the rules of the Securities and Exchange Commission, within 90 days of the filing date of this report and have determined that such controls and procedures effectively alert them to material information relating to the Company and its consolidated subsidiaries that is required to be included in the Company's periodic public filings.

INTERNAL CONTROLS

The Company's CEO and CFO have primary responsibility for the accuracy of the financial information that is presented in this report. To satisfy their responsibility for financial reporting, they have established internal controls and procedures which they believe are adequate to provide reasonable assurance that the Company's assets are protected from loss. These internal controls are reviewed by the Company's management in order to ensure compliance and by the

independent accountants to determine the nature, timing and extent of their audit work. In addition, the Company's Audit/Finance Committee, which is composed entirely of outside directors, meets regularly with management and the independent accountants to review accounting, auditing and financial matters. The Audit/Finance Committee and the independent accountants have free access to each other, with or without management being present.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the CEO's and CFO's most recent evaluation. Additionally, there have been no corrective actions required with regard to significant deficiencies or material weaknesses of internal controls.

The Company has an established code of ethics. The CEO, CFO and all senior financial managers have signed statements indicating their acknowledgement of and compliance with the code.

ACCOUNTING DEVELOPMENTS

PRONOUNCEMENTS IMPLEMENTED

As previously discussed, the Company adopted effective January 1, 2002 Statement of Financial Accounting Standards (SFAS) No. 141 and SFAS No. 142 issued by the Financial Accounting Standards Board (FASB). The adoption of these pronouncements requires the Company to account for all future business combinations under the purchase method of accounting. Also, the Company ceased amortizing goodwill and indefinite-lived intangible assets. These assets are now subject to periodic impairment analysis. During 2002, the Company performed impairment analyses in the second and fourth quarters wherein no impairment was determined to exist.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," and develops a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sale whether such assets are or are not deemed to be a business. SFAS No. 144 also modifies the accounting and disclosure rules for discontinued operations. The Company adopted SFAS No. 144 on January 1, 2002, which resulted in no material effect on the financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation", which became effective for the Company upon its issuance. SFAS No. 148 provides three transition options for companies that account for stock-based compensation, such as stock options, under the intrinsic-value method to convert to the fair value method. SFAS No. 148 also revised the prominence and character of the disclosures related to companies' stock-based compensation. In complying with the new reporting requirements of SFAS No. 148, the Company elected to continue using the intrinsic-value method to account for qualifying stock-based compensation, as permitted by SFAS No. 148 for 2002. The Company has, however, included the disclosures prescribed by SFAS No. 148 within the consolidated financial statements. For 2003, the Company is evaluating whether to adopt a transition option to expense stock-based compensation under the provisions of SFAS No. 148.

During November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 generally requires a guarantor to recognize a liability for obligations arising from guarantees. FIN No. 45 also requires new disclosures for guarantees meeting certain criteria outlined in that pronouncement. The disclosure requirements of FIN No. 45 are effective for the Company at December 31, 2002 and have been implemented as of that date. The recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions", which became effective for the Company upon issuance. SFAS No. 147 does not have applicability to the Company and therefore its implementation did not impact the financial position or results of operations.

PRONOUNCEMENTS NOT YET IMPLEMENTED

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Generally, this pronouncement requires companies to recognize the fair value of liabilities for retiring their facilities at the point that legal obligations associated with their retirement are incurred, with an offsetting increase to the carrying value of the facility. The expense associated with the retirement becomes a component of a facility's depreciation, which is recognized over its useful life.

Although SFAS No. 143 becomes effective for the Company on January 1, 2003, the Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations due to limited abandonment and retirement obligations associated with its facilities.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The most significant impact of SFAS 145 is to eliminate the requirement that gains and losses from the extinguishment of debt be classified as an extraordinary item unless these items are infrequent and unusual in nature. SFAS 145 is effective for the Company on January 1, 2003. Upon adoption of SFAS 145, the Company will reclassify its previously reported extraordinary items, which relate to early extinguishment of debt, as a component of earnings before income taxes.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized initially at fair value when the liability is incurred. Under current accounting rules, costs to exit or dispose of an activity are generally recognized at the date that the exit or disposal plan has been committed to and communicated. SFAS No. 146 is effective for the Company on January 1, 2003 and will be applied on a prospective basis.

During January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 provides guidance for companies having ownership of variable interest entities, typically referred to as special purpose entities, in determining whether to consolidate such variable interest entities. FIN No. 46 has immediate applicability for variable interest entities created after January 31, 2003 or interests in variable interest entities obtained after that date. For interests in variable interest entities obtained prior to February 1, 2003, FIN No. 46 becomes effective on July 1, 2003. The Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Annual Report and other written reports and oral statements made from time-to-time by the Company contain various forward-looking statements and include assumptions about the Company's future financial and market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are:

- changes in the financial markets and the availability of capital;
- changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies;
- the Company's ability to integrate past and future acquisitions into its management and operations;
- political risks, military actions or trade embargoes affecting customer markets, including the possibility of a war with Iraq and

its potential impact on Middle Eastern markets and global petroleum producers;

- the health of the petroleum, chemical, power and water industries;
- economic conditions and the extent of economic growth in areas inside and outside the United States;
- unanticipated difficulties or costs associated with the implementation of systems, including software;
- the Company's relative geographical profitability and its impact on the Company's utilization of foreign tax credits;
- the recognition of expenses associated with adjustments to realign the combined Company and IFC facilities and other capabilities with its strategic and business conditions, including, without limitation, expenses incurred in restructuring the Company's operations to incorporate IFC facilities;
- the Company's ability to meet the financial covenants and other requirements of its financing agreements;
- repercussions from the terrorist attacks of September 11, 2001, the threat of future attacks and the response of the United States to those attacks;
- technological developments in the Company's products as compared with those of its competitors;
- changes in prevailing interest rates and the effective interest costs which the Company bears; and
- adverse changes in the regulatory climate and other legal obligations imposed on the Company.

The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2002	**2001**	**2000**
	(Amounts in thousands, except per share data)		
Sales	**$ 2,251,331**	$ 1,917,507	$ 1,538,293
Cost of sales	**1,565,800**	1,302,955	1,031,381
Gross profit	**685,531**	614,552	506,912
Selling, general and administrative expense	**476,923**	410,563	360,306
Integration expense	**16,179**	63,043	35,211
Restructuring expense	**4,347**	(1,208)	19,364
Operating income	**188,082**	142,154	92,031
Net interest expense	**92,933**	118,072	70,321
Other expense (income), net	**3,079**	(1,547)	(1,474)
Earnings before income taxes	**92,070**	25,629	23,184
Provision for income taxes	**31,674**	9,275	7,876
Net earnings before extraordinary items	**60,396**	16,354	15,308
Extraordinary items, net of income taxes	**(7,371)**	(17,851)	(2,067)
Net earnings (loss)	**$ 53,025**	$ (1,497)	$ 13,241
Earnings (loss) per share (basic and diluted):			
Before extraordinary items	**$ 1.16**	$ 0.42	$ 0.40
Extraordinary items, net of income taxes	**(0.14)**	(0.46)	(0.05)
Net earnings (loss) per share (basic and diluted)	**$ 1.02**	$ (0.04)	$ 0.35

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Net earnings (loss)	**$ 53,025**	$ (1,497)	$ 13,241
Other comprehensive income (expense):			
Foreign currency translation adjustments	**38,751**	(37,560)	(20,724)
Minimum pension liability effects, net of tax effects	**(42,947)**	(16,223)	(1,149)
Cash flow hedging activity, net of tax effects:			
Cumulative effect of change in accounting for hedging transactions	**—**	840	—
Other hedging activity	**(161)**	(4,985)	—
Other comprehensive expense	**(4,357)**	(57,928)	(21,873)
Comprehensive income (loss)	**$ 48,668**	$ (59,425)	$ (8,632)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
	(Amounts in thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 49,293**	$ 21,533
Accounts receivable, net	**490,811**	455,861
Inventories	**431,243**	347,591
Deferred taxes	**26,460**	36,316
Prepaid expenses	**33,225**	36,838
Total current assets	**1,031,032**	898,139
Property, plant and equipment, net	**464,448**	362,388
Goodwill	**833,492**	515,175
Other intangible assets, net	**176,497**	131,079
Other assets	**102,196**	145,194
Total assets	**$ 2,607,665**	$ 2,051,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 230,603**	$ 178,480
Accrued liabilities	**222,797**	193,768
Long-term debt due within one year	**38,610**	44,523
Total current liabilities	**492,010**	416,771
Long-term debt due after one year	**1,055,748**	996,222
Retirement benefits and other liabilities	**304,217**	227,963
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value, 1,000 shares authorized, no shares issued	**—**	—

Common shares, $1.25 par value	**72,018**	60,518
Shares authorized—120,000		
Shares issued—57,614 and 48,414		
Capital in excess of par value	**477,635**	211,113
Retained earnings	**409,023**	355,998
	958,676	627,629
Treasury stock, at cost—2,794 and 3,622 shares	**(63,809)**	(82,718)
Deferred compensation obligation	**7,332**	8,260
Accumulated other comprehensive loss	**(146,509)**	(142,152)
Total shareholders' equity	**755,690**	411,019
Total liabilities and shareholders' equity	**$ 2,607,665**	$ 2,051,975

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	2002		2001		2000	
	Shares	Amount	Shares	Amount	Shares	Amount
	(Amounts in thousands)					
COMMON SHARES						
Beginning balance—January 1	**48,414**	**$ 60,518**	41,484	$ 51,856	41,484	$ 51,856
Sale of common shares	**9,200**	**11,500**	6,930	8,662	—	—
Ending balance—December 31	**57,614**	**$ 72,018**	48,414	$ 60,518	41,484	$ 51,856
CAPITAL IN EXCESS OF PAR VALUE						
Beginning balance—January 1		**$ 211,113**		$ 65,785		$ 67,963
Stock activity under stock plans		**90**		(32)		(2,178)
Sale of common shares		**264,032**		145,360		—
Tax benefit associated with the exercise of stock options		**2,400**		—		—
Ending balance—December 31		**$ 477,635**		$ 211,113		$ 65,785
RETAINED EARNINGS						
Beginning balance—January 1		**$ 355,998**		$ 357,495		$ 344,254
Net earnings (loss)		**53,025**		(1,497)		13,241
Ending balance—December 31		**$ 409,023**		$ 355,998		$ 357,495
TREASURY STOCK						
Beginning balance—January 1	**(3,622)**	**$ (82,718)**	(4,048)	$ (92,545)	(4,071)	$ (93,448)
Stock activity under stock plans	**761**	**17,260**	502	11,389	49	1,244
Other activity	**67**	**1,649**	(76)	(1,562)	(26)	(341)
Ending balance—December 31	**(2,794)**	**$ (63,809)**	(3,622)	$ (82,718)	(4,048)	$ (92,545)
DEFERRED COMPENSATION OBLIGATION						

Beginning balance—January 1		**$ 8,260**		$ 6,544		$ —
Increases (decreases) to obligation		**(928)**		1,716		6,544
Ending balance—December 31		**$ 7,332**		$ 8,260		$ 6,544
ACCUMULATED OTHER COMPREHENSIVE LOSS						
Beginning balance—January 1		**$ (142,152)**		$ (84,224)		$ (62,351)
Foreign currency translation adjustments		**38,751**		(37,560)		(20,724)
Retirement plan adjustments		**(42,947)**		(16,223)		(1,149)
Hedging transactions		**(161)**		(4,145)		—
Ending balance—December 31		**$ (146,509)**		$ (142,152)		$ (84,224)
TOTAL SHAREHOLDERS' EQUITY						
Beginning balance—January 1	**44,792**	**$ 411,019**	37,436	$ 304,911	37,413	$ 308,274
Net changes in shareholders' equity	**10,028**	**344,671**	7,356	106,108	23	(3,363)
Ending balance—December 31	**54,820**	**$ 755,690**	44,792	$ 411,019	37,436	$ 304,911

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Cash flows—Operating activities:			
Net earnings (loss)	**$ 53,025**	$ (1,497)	$ 13,241
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Depreciation	**56,747**	48,891	42,676
Amortization	**8,566**	24,964	14,361
Amortization of prepaid financing fees and discount	**5,149**	6,736	3,074
Write-off of unamortized prepaid financing fees and discount	**5,842**	7,654	2,216
Other direct costs of long-term debt repayment	**5,700**	17,320	1,013
Net (gain) loss on the disposition of fixed assets	**(1,723)**	(783)	150
Impairment of assets	**—**	679	3,673
Change in assets and liabilities, net of acquisitions:			
Accounts receivable	**76,540**	15,604	(70,102)
Inventories	**22,534**	(54,840)	(1,963)
Prepaid expenses	**13,711**	(14,686)	7,968
Other assets	**(4,750)**	(9,557)	(24,781)
Accounts payable	**7,162**	(3,510)	18,084
Accrued liabilities	**(25,513)**	(55,861)	(18,215)
Income taxes payable	**(4,701)**	184	(7,639)
Retirement benefits and other liabilities	**10,629**	(12,509)	32,753
Net deferred taxes	**19,949**	(16,718)	1,922
Net cash flows provided (used) by operating activities	**248,867**	(47,929)	18,431
Cash flows—Investing activities:			
Capital expenditures	**(30,875)**	(35,225)	(27,819)

Cash received for disposals of assets	**8,720**	8,723	5,404
Payments for acquisitions, net of cash acquired	**(535,067)**	(1,685)	(770,714)
Net cash flows used by investing activities	**(557,222)**	(28,187)	(793,129)
Cash flows—Financing activities:			
Net (repayments) borrowings under lines of credit	**(70,000)**	70,000	(91,011)
Proceeds from long-term debt	**795,306**	420	1,284,469
Payments on long-term debt	**(683,923)**	(155,580)	(358,488)
Payment of prepaid financing fees	**(6,080)**	—	(46,474)
Other direct costs of long-term debt repayment	**—**	(17,320)	(1,013)
Proceeds from issuance of common stock	**275,925**	154,022	—
Net proceeds from stock option activity	**16,850**	7,999	615
Net cash flows provided by financing activities	**328,078**	59,541	788,098
Effect of exchange rate changes	**8,037**	(4,233)	(1,522)
Net change in cash and cash equivalents	**27,760**	(20,808)	11,878
Cash and cash equivalents at beginning of year	**21,533**	42,341	30,463
Cash and cash equivalents at end of year	**$ 49,293**	$ 21,533	$ 42,341
Income taxes paid	**$ 4,895**	$ 15,444	$ 19,880
Interest paid	**$ 87,923**	$ 125,190	$ 45,704

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING DEVELOPMENTS

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

PRINCIPLES OF CONSOLIDATION

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

BASIS OF COMPARISON

Certain amounts in 2001 and 2000 have been reclassified to conform with the 2002 presentation.

USE OF ESTIMATES

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. The most significant estimates made by management include its:

- allowance for doubtful accounts;
- reserve for excess and obsolete inventories;
- deferred tax asset valuation allowances;
- restructuring accruals;
- legal and environmental accruals;
- warranty accruals;
- insurance accruals;
- pension and postretirement benefit obligations; and
- valuation of goodwill, indefinite-lived intangible assets and other long-lived assets.

These significant estimates are reviewed quarterly with the Company's Audit/Finance Committee.

REVENUE RECOGNITION

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND CREDIT RISK

Accounts receivable are stated net of the allowance for doubtful accounts of $21,010 and $20,800 at December 31, 2002 and 2001, respectively.

The allowance for doubtful accounts is established based on estimates of the amount of uncollectible accounts receivable. The amount of the allowance is determined based upon the aging of the receivable, customer credit history, industry and market segment information, economic trends and conditions, credit reports and customer financial condition. Customer credit issues, customer bankruptcies or general economic conditions can also affect the estimates.

Credit risk may be mitigated by the large number of customers in the Company's customer base across many different geographic regions and an analysis of the creditworthiness of such customers. Additionally, the Company maintains a credit insurance policy for its European subsidiaries. Under the policy, the Company generally receives funds from the third party insurer, net of deductible, in instances where customers covered by the policy are unable to pay.

As of December 31, 2002 and 2001, the Company does not believe that it had significant concentrations of credit risk.

INVENTORIES

Inventories are stated at the lower-of-cost or market. Cost is determined for U.S. inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method. Reserves for excess and obsolete inventories are based on management's assessment

of market conditions for its products determined by historical usage and estimated future demand. These estimates are generally not subject to significant volatility, except for product rationalizations generally associated with acquisition integration programs, due to the relatively long life cycle of the Company's products.

INCOME TAXES, DEFERRED TAXES AND TAX VALUATION ALLOWANCES

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances reflect the likelihood of the recoverability of any such assets. The Company records valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing net operating losses and tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of past, current and estimated future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies.

RESTRUCTURING RESERVES

Restructuring reserves are generally established in conjunction with an acquisition. Such reserves reflect many estimates including costs pertaining to employee separation, settlements of contractual obligations and other matters associated with exiting a facility. Restructuring costs related to facilities and employees of an acquired business generally become a component of goodwill, whereas non-acquisition related restructuring costs are recorded as restructuring expense in the statement of operations. Reserve requirements for each restructuring plan are assessed quarterly and susceptible to adjustment due to revisions of cost estimates and other changes in planned restructuring activities.

WARRANTY ACCRUALS

Warranty obligations are based upon product failure rates, materials usage and service delivery costs. The Company estimates its warranty provisions based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. The estimates of expected claims are generally a factor of historical claims. Changes in claim rates, differences between actual and expected warranty costs and the Company's facility rationalization activities could impact warranty obligation estimates.

INSURANCE ACCRUALS

Insurance accruals are recorded based upon an analysis of the Company's claim loss history, insurance deductibles, policy limits and an estimate of incurred but not reported claims. The estimates are based upon information received from the insurance company adjusters. Changes in claims and differences between actual and expected claim losses could impact the accrual in the future.

PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS

Determination of the value of the pension and postretirement benefits liabilities is based on estimates made by management in consultation with independent actuaries. Inherent in these valuations are key assumptions including discount rates, market value of plan assets, expected return on plan assets, life expectancy and assumed rate of increase in wages or in health care costs. Current market conditions, including changes in rates of returns, interest rates and medical inflation rates are considered in selecting these assumptions. Changes in the related pension and postretirement benefit costs may occur in the future due to changes in the assumptions used and changes resulting from fluctuations in the Company's related headcount.

VALUATION OF GOODWILL, INDEFINITE-LIVED INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

The value of the Company's goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter or whenever events or circumstances indicate such assets may be impaired. The test involves significant judgment in estimating projections of fair value generated through future performance of each of the Company's reporting units which correlate to the Company's operating segments. The net realizable value of other long-lived assets, including property, plant and equipment, is reviewed periodically, when indicators of potential impairments are present, based upon an assessment of the estimated future cash flows related to those assets.

Due to uncertain market conditions and potential changes in strategy and product portfolio, it is possible that forecasts used to support asset carrying values may change in the future, which could result in non-cash charges that would adversely affect the Company's results of operations and financial condition.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign affiliates are translated at current exchange rates, while income and expenses are translated at average rates for the period. Translation gains and losses are generally reported as a component of accumulated other comprehensive income or loss.

Transaction and translation gains and losses arising from intercompany balances are reported as a component of accumulated other comprehensive income or loss when the underlying transaction stems from a long-term equity investment or from debt designated as not due in the foreseeable future. Otherwise, the Company recognizes transaction gains and losses arising from intercompany transactions as a component of income. Where intercompany balances are not long-term investment related or not designated as due beyond the foreseeable future, the Company generally mitigates risk associated with transaction gains and losses by entering into forward exchange contracts. See

Note 8 for further discussion of these contracts.

STOCK-BASED COMPENSATION

At December 31, 2002, the Company had several stock-based employee compensation plans, which are described more fully in Note 7. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Generally, no stock-based employee compensation cost is reflected in net earnings for stock option grants, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. Awards of restricted stock are generally valued at the market price of the Company's common stock on the date of grant and recorded as unearned compensation within shareholder's equity. The unearned compensation is amortized to compensation expense over the vesting period of the restricted stock.

The following table illustrates the effect on net earnings and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands, except per share amounts)		
Net earnings (loss), as reported	**$ 53,025**	$ (1,497)	$ 13,241
Restricted stock compensation expense included in net earnings, net of related tax effects	**472**	842	687
Less: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(3,562)**	(3,713)	(4,505)
Pro forma net earnings (loss)	**$ 49,935**	$ (4,368)	$ 9,423
Earnings (loss) per share (basic and diluted):			
As reported	**$ 1.02**	$ (0.04)	$ 0.35
Pro forma	**$ 0.96**	$ (0.11)	$ 0.25

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

BUSINESS COMBINATIONS

All business combinations referred to in these financial statements used the purchase method of accounting, under which the Company allocates the purchase price to the identifiable tangible and intangible assets, recognizing goodwill when the purchase price exceeds fair value of such identifiable assets. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition and any excess of purchase price over fair value of the identifiable net assets is recorded as goodwill. Statement of Financial Accounting Standards (SFAS) No. 141 requires use of the purchase method for all business combinations completed after June 30, 2001.

SHORT-TERM INVESTMENTS

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

PROPERTY, PLANT AND EQUIPMENT, AND DEPRECIATION

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

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

INTANGIBLE ASSETS

Intangible assets, excluding trademarks which are considered to have an indefinite life, consist primarily of engineering drawings, distribution networks, software, patents and other items that are being amortized over their useful lives generally ranging from 9 to 40 years. These assets are reviewed for impairment whenever events and circumstances indicate impairment may have occurred.

LEGAL AND ENVIRONMENTAL ACCRUALS

Legal and environmental reserves are recorded based upon a case-by-case analysis of the facts, circumstances and related costs. The costs relating to legal and environmental liabilities are estimated and recorded when it is probable that a loss has been incurred and such loss is estimable. Assessments of legal and environmental costs are based on information obtained from the Company's independent and in-house experts and the Company's loss experience in similar situations. The estimates may vary in the future due to new developments regarding the facts and circumstances of each matter.

DERIVATIVES AND HEDGING ACTIVITIES

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

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. These strategies also minimize potential gains from favorable 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 into U.S. dollars. The primary currencies to which the Company has exposure are the Euro, British pound, Canadian dollar, Mexican peso, Japanese yen, Singapore dollar, Brazilian real, Australian dollar, Argentinean peso and Venezuelan bolivar.

Beginning January 1, 2001, all derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (2) a foreign currency fair value or cash flow hedge (a "foreign currency" hedge). Changes in the fair value of a derivative that is highly effective, designated and qualified 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. Changes in the fair value of foreign currency hedges are recorded in other comprehensive income since they satisfy the criteria for a cash flow hedge. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative do not mirror the change in the cash flow of the forecasted transaction) is recorded in current period earnings.

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

The Company discontinues hedge accounting prospectively when:

- the derivative no longer effectively offsets changes in the fair value or cash flows of a hedged item (such as firm commitments or forecasted transactions);
- the derivative expires, terminates or is sold;
- the forecasted transaction is not probable to occur; or
- 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.

RESEARCH AND DEVELOPMENT EXPENSE

Research and development costs are charged to expense when incurred. Aggregate research and development costs were $24.4 million in 2002, $23.4 million in 2001 and $24.8 million in 2000.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments approximate fair value at December 31, 2002, except for its debt, which had a carrying value of $1,094 million and an estimated fair value of $1,119 million. The debt had a carrying value of $1,041 million and an estimated fair value of $1,077 million at December 31, 2001.

EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands, except per share amounts)		
Earnings before extraordinary items	**$ 60,396**	$ 16,354	$ 15,308
Extraordinary items, net of income taxes	**(7,371)**	(17,851)	(2,067)
Net earnings (loss)	**$ 53,025**	$ (1,497)	$ 13,241
Denominator for basic earnings per share—weighted average shares	**51,836**	38,719	37,823
Effect of potentially dilutive securities	**357**	611	19
Denominator for diluted earnings per share—weighted average shares adjusted for dilutive securities	**52,193**	39,330	37,842
Earnings per share—basic:			
Before extraordinary items	**$ 1.16**	$ 0.42	$ 0.40
Extraordinary items	**(0.14)**	(0.46)	(0.05)
Net earnings (loss) per share	**$ 1.02**	$ (0.04)	$ 0.35
Earnings per share—diluted:			
Before extraordinary items	**$ 1.16**	$ 0.42	$ 0.40
Extraordinary items	**(0.14)**	(0.46)	(0.05)
Net earnings (loss) per share	**$ 1.02**	$ (0.04)	$ 0.35

Options outstanding with an exercise price greater than the average market price of the common stock were not included in the computation of diluted earnings per share. The weighted average number of such options totaled 1,171,411 and 3,413,411 for 2002 and 2000, respectively. For 2001, the computation of diluted net loss per ordinary share was antidilutive, and therefore as required under SFAS No. 128, the amounts reported for basic and diluted net loss per ordinary share were the same.

ACCOUNTING DEVELOPMENTS

Pronouncements Implemented

During June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". Adoption of SFAS No. 141 required the Company to account for all future business combinations occurring after June 30, 2001, using the purchase method. Pursuant to adoption of SFAS No. 142, the Company ceased amortized goodwill and indefinite-lived intangible assets, both of which are now subject to

periodic impairment tests. The Company adopted both SFAS No. 141 and No. 142 effective January 1, 2002.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," and develops a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sale whether such assets are or are not deemed to be a business. SFAS No. 144 also modifies the accounting and disclosure rules for discontinued operations. The Company adopted SFAS No. 144 on January 1, 2002, which resulted in no material effect to the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation", which became effective for the Company upon its issuance. SFAS No. 148 provides three transition options for companies that account for stock-based compensation, such as stock options, under the intrinsic-value method to convert to the fair value method. SFAS No. 148 also revised the prominence and character of the disclosures related to companies' stock-based compensation. In complying with the new reporting requirements of SFAS No. 148, the Company elected to continue using the intrinsic-value method to account for qualifying stock-based compensation, as permitted by SFAS No. 148 for 2002. The Company has, however, included the disclosures prescribed by SFAS No. 148 within the consolidated financial statements. For 2003, the Company is evaluating whether to adopt a transition option to expense stock-based compensation under the provisions of SFAS No. 148.

During November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 generally requires a guarantor to recognize a liability for obligations arising from guarantees. FIN No. 45 also requires new disclosures for guarantees meeting certain criteria outlined in that pronouncement. The disclosure requirements of FIN No. 45 are effective for the Company at December 31, 2002 and have been implemented as of that date. The recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions", which became effective for the Company upon issuance. SFAS No. 147 does not have applicability to the Company and therefore its implementation did not impact the financial position or results of operations.

Pronouncements Not Yet Implemented

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Generally, this pronouncement requires companies to recognize the fair value of liabilities for retiring their facilities and equipment at the point that legal obligations associated with their retirement are incurred, with an offsetting increase to the carrying value of the facility. The expense associated with the retirement becomes a component of a facility's depreciation, which is recognized over its useful life. Although SFAS No. 143 becomes effective for the Company on January 1, 2003, the Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations due to limited abandonment and retirement obligations associated with its facilities.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The most significant impact of SFAS No. 145 is to eliminate the requirement that gains and losses from the extinguishment of debt be classified as an extraordinary item unless these items are infrequent and unusual in nature. SFAS No. 145 is effective for the Company on January 1, 2003. Upon adoption of SFAS No. 145, the Company will reclassify its previously reported extraordinary items, which relate to early extinguishment of debt, as a component of earnings before income taxes.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized initially at fair value when the liability is incurred. Under current accounting rules, costs to exit or dispose of an activity are generally recognized at the date that the exit or disposal plan has been committed to and communicated. SFAS No. 146 is effective for the Company on January 1, 2003 and will be applied on a prospective basis.

During January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 provides guidance for companies having ownership of variable interest entities, typically referred to as special purpose entities, in determining whether to consolidate such variable interest entities. FIN No. 46 has immediate applicability for variable interest entities created after January 31, 2003 or interests in variable interest entities obtained after that date. For interests in variable interest entities obtained prior to February 1, 2003, FIN No. 46 becomes effective on July 1, 2003. Because the Company does not hold an interest in an entity governed by the pronouncement, the Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations.

NOTE 2: GOODWILL AND OTHER INTANGIBLE ASSETS

On January 1, 2002, the Company adopted SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all prospective business combinations be accounted for using the purchase method, under which an acquiring company allocates the purchase price to the identifiable assets and liabilities, and recognizes goodwill when the purchase price exceeds the fair value of such identifiable assets and liabilities. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The most significant changes made by SFAS No. 142 require the cessation of systematic amortization of goodwill and indefinite-lived intangible assets, instead requiring impairment testing at least on an annual basis. Additionally, the amortization period of intangible assets is no longer limited to forty years.

Upon implementation of SFAS Nos. 141 and 142, the Company reclassified acquired workforce intangible assets with a net carrying value of $18.5 million to goodwill as acquired workforce intangible assets do not meet the new criteria for recognition apart from goodwill. The Company also determined that $31.1 million in acquired trademark intangible assets have indefinite useful lives and no longer systematically amortizes these intangible assets.

Under SFAS No. 142, impairment for goodwill and indefinite-lived intangibles is assessed at the reporting unit level annually and whenever events or circumstances indicate impairment may exist. During the second quarter of 2002, the Company completed the required transitional impairment tests for goodwill and indefinite-lived intangible assets and determined these assets were not impaired. A similar test was conducted during the fourth quarter of 2002, which also revealed no impairment to these assets. Amortization of goodwill, workforce intangible assets (which were reclassified to goodwill upon adoption of SFAS No. 142) and trademark intangible assets with indefinite useful lives totaled $19.7 million and $11.5 million on a pretax basis for 2001 and 2000.

The following table reflects consolidated results for the years ended December 31, 2001 and 2000 adjusted as though the implementation of SFAS No. 141 and No. 142 occurred on January 1, 2000:

	Year ended December 31,			
	Before Extraordinary Items		After Extraordinary Items	
	2001	2000	2001	2000
	(Amounts in thousands, except per share amounts)			
Net earnings (loss), as reported	$ 16,354	$ 15,308	$ (1,497)	$ 13,241
Amortization of:				
Goodwill	11,963	6,752	11,963	6,752
Workforce intangible assets	1,743	595	1,743	595
Trademarks	585	221	585	221
Adjusted net earnings (loss)	$ 30,645	$ 22,876	$ 12,794	$ 20,809
Net earnings (loss) per share, as reported	$ 0.42	$ 0.40	$ (0.04)	$ 0.35
Amortization of:				
Goodwill	0.30	0.17	0.30	0.17
Workforce intangible assets	0.05	0.02	0.05	0.02
Trademarks	0.02	0.01	0.02	0.01
Adjusted net earnings (loss) per share	$ 0.79	$ 0.60	$ 0.33	$ 0.55

The following tables provide information about intangible assets:

		December 31, 2002				December 31, 2001	
	Useful Life (years)	Gross Amount	Change Due To Currency	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(Amounts in thousands, except years)					
Amortized intangible assets:							
Engineering drawings	10 - 22.5	$ 79,985	$ 1,043	$ 81,028	$ (8,452)	$ 63,500	$ (4,267)
Distribution networks	15	13,700	—	13,700	(1,964)	13,700	(1,051)
Software	10	5,900	—	5,900	(1,423)	5,900	(833)
Patents	9.5 - 15.5	25,205	1,004	26,209	(3,024)	2,690	(1,430)
Other(1)	3 - 40	8,050	14	8,065	(3,211)	27,610	(5,800)
		$ 132,840	$ 2,061	$ 134,902	$ (18,074)	$ 113,400	$ (13,381)
Indefinite-lived intangible assets:							
Trademarks		$ 57,889	$ 1,780	$ 59,669		$ 31,060	

(1) Other amortized intangible assets at December 31, 2001 includes net acquired workforce intangible assets of $18,501 that were reclassified to goodwill upon the implementation of SFAS No. 142 on January 1, 2002.

As a result of the acquisition of Invensys plc's flow control division in May 2002, the Company acquired approximately $73.7 million of intangible assets. The amounts assigned to the acquired intangible assets arising from this acquisition are based on valuation studies prepared by third party experts and are summarized below:

Intangible Assets	Amount Acquired (millions)	Weighted Average Life (years)	Amortized
Engineering drawings	$ 17.6	10	Yes
Patents	$ 23.9	11	Yes
Other	$ 3.8	3	Yes
Trademarks	$ 28.3	Indefinite	No
Domain names	$ 0.1	Indefinite	No

The following schedule outlines actual amortization recognized during 2002 and an estimate of future amortization based upon the intangible assets owned at December 31, 2002:

Amortization expense (in thousands):	
Actual for year ending December 31, 2002	$ 8,566
Estimated for year ending December 31, 2003	$ 10,176
Estimated for year ending December 31, 2004	$ 10,176
Estimated for year ending December 31, 2005	$ 9,209
Estimated for year ending December 31, 2006	$ 8,749
Estimated for year ending December 31, 2007	$ 8,714

The changes in the carrying amount of goodwill for the year ending December 31, 2002 are as follows:

	Flowserve Pump	Flow Solutions	Flow Control	Other	Total
			(Amounts in thousands)		
Balance as of December 31, 2001	$ 432,895	$ 21,929	$ 40,882	$ 19,469	$ 515,175
Reclassification of workforce intangible assets to goodwill	18,501	—	—	—	18,501
Acquisition (see Note 3)	—	—	288,932	—	288,932
Other reclassifications	8,356	4,784	5,143	(19,469)	(1,186)
Currency translation	2,479	2,799	6,792	—	12,070
Balance as of December 31, 2002	**$ 462,231**	**$ 29,512**	**$ 341,749**	**$ —**	**$ 833,492**

Other reclassifications include the allocation of previously unallocated goodwill to the Company's reporting units and other reclassifications from intangible assets in connection with the implementation of SFAS No. 142.

Effective July 1, 2002, the Company realigned its operating segments. Previously, the Flow Solutions Division included seal manufacturing operations as well as all service and repair to flow control equipment. Under the new alignment, pump services and valve services have been included in Flowserve Pump Division and Flow Control Division, respectively. Accordingly, goodwill associated with the pump service and valve service businesses of $39.3 million and $6.7 million, respectively, has been reclassified for all periods presented herein to conform to the new organization structure.

NOTE 3: ACQUISITIONS

The operating results of Invensys plc's flow control division, Ingersoll-Dresser Pump Company and Innovative Valve Technologies have been included in the consolidated statement of operations from the date of acquisition. The purchase price for each acquisition has been allocated to assets acquired and liabilities assumed based on estimated fair value at the date of acquisition.

INVENSYS FLOW CONTROL

On May 2, 2002, the Company completed its acquisition of Invensys plc's flow control division (IFC) for an aggregate purchase price of $535 million, subject to adjustment pursuant to the terms of the purchase and sale agreement. IFC manufactures valves, actuators and associated flow control products, and provides the Company with a more balanced mix of revenue among pumps, valves and seals as well as a more diversified geographic and end market mix. The Company financed the acquisition and associated transaction costs with a combination of bank financing, as more fully described in Note 10, and net proceeds of approximately $276 million received from the issuance of 9.2 million common shares in April 2002.

The table below reflects unaudited pro forma results of the Company and IFC as if this acquisition had taken place at the beginning of 2002 and 2001, including estimated purchase accounting adjustments and financing costs. The non-recurring $5.2 million purchase accounting adjustment associated with the required write-up and subsequent sale of IFC inventory after acquisition has also been presented in the pro forma information for 2001 to reflect a theoretical acquisition date of January 1, 2001.

	Year ended December 31,	
	2002	**2001**
	(Amounts in thousands, except per share amounts)	
Net sales	**$ 2,408,668**	$ 2,442,201
Operating income	**203,145**	202,589
Net earnings before extraordinary items	**68,797**	44,479
Net earnings	**61,426**	26,628
Net earnings per share (basic):		
Before extraordinary items	**$ 1.25**	$ 0.93
Net earnings	**1.12**	0.56
Net earnings per share (diluted):		
Before extraordinary items	**$ 1.24**	$ 0.92
Net earnings	**1.11**	0.55

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

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the IFC acquisition:

	(Amounts in millions)
Current assets	$ 180
Non-current assets, excluding goodwill	210
Goodwill	289(1)
Total assets acquired	$ 679
Current liabilities	$ 92
Non-current liabilities	52
Total liabilities assumed	$ 144
Net assets acquired	$ 535

(1) Includes $123.5 million which the Company considers deductible for income tax purposes.

The purchase price allocation may require further refinements upon finalization of the beginning balance sheet, including deferred tax effects. The Company expects to finalize the purchase price allocation during the second quarter of 2003.

INGERSOLL-DRESSER PUMP COMPANY AND INNOVATIVE VALVE TECHNOLOGIES

In August 2000, the Company completed a $775 million cash 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. The acquisition was financed with a combination of senior secured term loans and issuance of senior subordinated notes. Upon closing of the transaction, the existing Company debt was also refinanced into the new senior secured credit facility.

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

The Company acquired all of the outstanding stock of Invatec and assumed Invatec's existing debt and related obligations. The $16.6 million acquisition was financed through the Company's working capital. Concurrent with consummation of the acquisition, Invatec's net debt of $87.7 million was paid off through borrowings under the Company's revolving credit agreement.

NOTE 4: SALES OF ACCOUNTS RECEIVABLE

During December 2002, the Company, through certain of its German and British subsidiaries, entered into agreements whereby it factored certain non-intercompany, current accounts receivable without recourse. The agreements which run through December 2005, with options for renewal, permit a maximum factoring equivalent of $50 million.

Under the program, the factors, which are third party financial institutions, purchase the receivables from the Company by advancing 80% of the face value of the underlying receivables. The Company is entitled to the remaining 20%, net of factoring fees, from the factors upon collection from the customer. Upon collection of a factored receivable, the program generally permits the Company to replace that collection with another previously unfactored qualifying receivable. The Company retained the responsibility for servicing and collecting the receivables. At December 31, 2002, the Company had received approximately $17 million in cash from the factors, which represents their purchase of $21 million of receivables. The Company has established a receivable from the factors for the $4 million to be recouped

upon payment by the customer. Also at December 31, 2002, the Company has sold an additional $18 million of receivables for which no amounts had been advanced by the factor. The Company utilized the proceeds from the factoring program to partially fund the optional debt repayments during the fourth quarter of 2002.

The Company does not generally require collateral for the receivables it factors, however, it attempts to reduce credit risk through credit extension and collection policies and through the purchase of credit insurance. The Company deems the receivables factored to be sold and recognizes a loss on their sale upon receipt of cash from the factor. The amount of the loss is generally equal to the estimated factoring fees, the credit insurance costs on the factored receivables and the cost to service the receivables. During 2002, the Company recognized approximately $0.3 million of loss in factoring the receivables, which included the initial commencement fees of $0.1 million.

Additionally, the Company maintains other less significant factoring programs.

NOTE 5: INVENTORIES

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

Inventories and the method of determining costs were:

	December 31,	
	2002	**2001**
	(Amounts in thousands)	
Raw materials	**$ 106,998**	$ 62,818
Work in process	**235,195**	146,494
Finished goods	**242,795**	258,856
Less: Progress billings	**(80,943)**	(43,655)
Less: Excess and obsolete reserve	**(40,375)**	(42,986)
	463,670	381,527
LIFO reserve	**(32,427)**	(33,936)
Net inventory	**$ 431,243**	$ 347,591
Percent of inventory accounted for by:		
LIFO	**57%**	62%
FIFO	**43%**	38%

Inventory balances increased in 2002 primarily as a result of the IFC acquisition, which resulted in the following additions to inventory at the date of acquisition:

	(Amounts in millions)
Raw materials	$ 39.7
Work in process	13.3
Finished goods	26.3
Total	$ 79.3

Additionally, inventory balances were impacted by currency translation, which had the effect of increasing inventory by $13.2 million at December 31, 2002 compared with the prior year end balance. The decline in the excess and obsolete reserve from December 31, 2001 generally reflects the physical disposal of non-saleable inventory during 2002.

NOTE 6: RESTRUCTURING AND ACQUISITION RELATED CHARGES

IFC ACQUISITION

In June 2002, in conjunction with the IFC acquisition, the Company initiated an integration program designed to reduce costs and eliminate excess capacity by consolidating facilities, closing seven valve facilities and reducing sales and related support personnel. The Company's actions, approved and committed to in 2002, are expected to result in a gross reduction of approximately 921 positions and a net reduction of approximately 623 positions. Through December 31, 2002, 442 gross positions and 268 net positions had been eliminated pursuant to the program.

Concurrent with the acquisition, the Company established a restructuring reserve of $11.0 million in the second quarter of 2002, and increased the reserve by $2.8 million and $6.8 million in the third and fourth quarters of 2002 for this program. The Company expects to pay for the majority of the remaining reductions and closures in 2003. Costs associated with the closure of Flowserve facilities of $4.3 million in 2002 were recognized as a restructuring expense in the statement of operations. Costs associated with the closure of IFC facilities of $16.3 million and related deferred taxes of $5.1 million became part of the purchase price allocation of the transaction. The effect of these closure costs for IFC facilities increased the amount of goodwill otherwise recognizable as a result of the IFC acquisition.

The following illustrates activity related to the IFC restructuring reserve:

	Severance	Other Exit Costs	Total
	(Amounts in thousands)		
Balance created on June 5, 2002	$ 6,880	$ 4,160	$ 11,040
Additional accruals	6,896	2,736	9,632
Cash expenditures	(3,037)	(1,241)	(4,278)
Balance at December 31, 2002	$ 10,739	$ 5,655	$ 16,394

During 2002, the Company also incurred integration expense in conjunction with this program, which is summarized below:

	December 31, 2002
	(Amounts in millions)
Cash expense	$ 15.1
Non-cash expense	1.1
Total expense	$ 16.2

Expenses classified as integration generally represent period costs associated with acquisition-related activities such as relocation of product lines from closing to receiving facilities, realignment of receiving facilities, performance and retention bonuses, idle manufacturing costs, costs related to the integration team and asset impairments.

Additional restructuring and integration expenses related to the IFC acquisition are expected in subsequent quarters. The Company expects to complete the identification of its restructuring initiatives from the IFC acquisition in 2003.

IDP ACQUISITION

In August 2000, in conjunction with the acquisition of Ingersoll-Dresser Pump Company (IDP), the Company initiated restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities.

The Company recognized $65 million in restructuring cost, comprised of approximately $42 million related to the IDP operations acquired and $23 million related to Flowserve operations. The $42 million related to IDP operations, reduced by deferred tax effects of $16 million, resulted in recognition of $26 million of goodwill. The $23 million related to Flowserve operations was recognized as restructuring expense in the consolidated statement of operations.

The following illustrates activity related to the IDP restructuring reserve:

Other Exit

	Severance	Costs	Total
	(Amounts in thousands)		
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	-	(8,849)
Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	$ 2,402	$ 3,119	$ 5,521
Cash expenditures	(801)	(1,046)	(1,847)
Net non-cash reduction	(1,601)	(2,073)	(3,674)
Balance at December 31, 2002	$ —	$ —	$ —

During 2001 and 2000, the Company also incurred integration expense of $63.0 million and $35.2 million, respectively, associated with the acquisition of IDP. The non-cash reductions to the reserve generally relate to reclassifications to retirement benefit obligations and other liabilities, offset by increases to the reserve for changes in estimated restructuring costs. The Company completed its integration and restructuring activities in 2001, and the majority of the expenditures were completed as of December 31, 2002.

The restructuring and integration activities associated with the IDP acquisition resulted in the elimination of approximately 1,100 net positions and have resulted in approximately $90 million of annual run rate savings.

NOTE 7: STOCK PLANS

STOCK OPTION PLANS

The Company maintains several shareholder-approved stock option plans to purchase shares of the Company's common stock. At December 31, 2002, approximately 503,999 options were available for grant under the various plans. Options granted to officers, other employees and directors allow for the purchase of common shares at or above the fair value at the date of grant. Generally, these options, whether granted from the current or prior plans, become exercisable over staggered periods ranging from one year to five years, but expire after ten years from the date of the grant.

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

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option:						
Outstanding at beginning of year	**3,402,318**	**$ 21.86**	3,778,380	$ 21.29	3,672,327	$ 21.56
Granted	**371,356**	**25.09**	298,017	26.82	337,700	17.38
Exercised	**(739,232)**	**20.74**	(470,976)	19.05	(71,036)	14.40
Cancelled	**(156,191)**	**23.64**	(203,103)	24.47	(160,611)	22.26
Outstanding at end of year	**2,878,251**	**$ 22.41**	3,402,318	$ 21.86	3,778,380	$ 21.29
Exercisable at end of year	**1,791,764**	**$ 22.75**	2,065,006	$ 23.05	2,195,599	$ 23.69

The weighted average remaining contractual life of options outstanding at December 31, 2002 is 6.3 years. Additional information relating to the ranges of options outstanding at December 31, 2002, is as follows:

		Options Outstanding		Options Exercisable	
Range of Exercise Prices Per Share	Weighted Average Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
$0.83 - 11.75	1.0	2,508	$ 0.96	2,508	$ 0.96

$11.76 - 15.67	7.1	50,159	$	13.18	38,492	$	13.20
$15.68 - 19.59	6.5	1,455,178	$	18.14	904,019	$	17.95
$19.60 - 23.51	3.4	135,321	$	22.77	128,655	$	22.89
$23.52 - 27.43	8.1	755,630	$	25.82	251,235	$	26.44
$27.44 - 31.35	4.0	358,441	$	29.32	358,441	$	29.32
$31.36 - 35.27	5.3	23,052	$	33.89	10,452	$	33.81
$35.28 - 39.20	2.1	97,962	$	36.56	97,962	$	36.56
		2,878,251			1,791,764		

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

The assumptions used in this valuation are as follows:

	Year ended December 31,		
	2002	2001	2000
Risk-free interest rate	**5.2%**	5.5%	5.4%
Dividend yield	**—**	—	—
Stock volatility	**45.6%**	33.6%	32.9%
Average expected life (years)	**7.2**	6.7	7.8
Forfeiture rate	**7.8%**	9.0%	9.2%

The options granted had a weighted average fair value per share on date of grant of $11.70 in 2002, $12.40 in 2001, and $8.63 in 2000. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting periods.

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands, except per share amounts)		
Net earnings (loss), as reported	**$ 53,025**	$ (1,497)	$ 13,241
Restricted stock compensation expense included in net earnings (loss), net of related tax effects	**472**	842	687
Less: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(3,562)**	(3,713)	(4,505)
Pro forma net earnings (loss)	**$ 49,935**	$ (4,368)	$ 9,423
Earnings (loss) per share (basic and diluted):			
As reported	**$ 1.02**	$ (0.04)	$ 0.35
Pro forma	**$ 0.96**	$ (0.11)	$ 0.25

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

RESTRICTED STOCK PLANS

The Company also has restricted stock plans that authorize the Company to grant up to 5,742 additional shares of common stock to employees and non-employee directors. In general, the restrictions on the shares do not lift for a period of at least one but not more than ten years and are subject to forfeiture during the restriction period. The intrinsic value of the shares, which is typically the product of share price at the date of grant and the number of shares granted, is amortized on a straight line basis to compensation expense over the periods in which the restrictions lapse. Any cumulative recognized expense related to restricted stock forfeited is reversed from income during the period of forfeiture.

The following table summarizes information regarding the restricted stock plans:

Year ended December 31,		
2002	2001	2000

Shares granted during the year	**31,100**	27,700	26,645
Weighted average grant date fair value per share	**$ 27.20**	$ 25.49	$ 13.42
Compensation expense, net of forfeitures of previously recognized expense (in thousands)	**$ 719**	$ 1,320	$ 1,041
Unexpired shares with unmet restrictions at December 31	**79,232**	123,658	186,798

NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES

The Company enters into forward contracts to hedge its risk associated with transactions denominated in foreign currencies. The Company's risk management and derivatives policy specify the conditions in which the Company enters into derivative contracts. As of December 31, 2002 and 2001, the Company had approximately $48.6 million and $69.4 million, respectively, of notional amount in outstanding contracts with third parties. As of December 31, 2002, the maximum length of any forward contract currently in place was less than one year. The fair value of outstanding forward contracts at December 31, 2002 and 2001 was $3.3 million and $(0.3) million, respectively.

The Company, also as part of its risk management program, enters into interest rate swap agreements to hedge its exposure to floating interest rates on certain portions of its debt. As of December 31, 2002 and 2001, the Company had $125.0 million and $150.0 million, respectively, of notional amount in outstanding interest rate swaps with third parties. As of December 31, 2002, the maximum length of any interest rate contract currently in place was approximately four years. At

December 31, 2002 and 2001, the fair value of the interest rate swap agreements was a liability of $9.8 million and $6.3 million, respectively.

The Company is exposed to risk from credit-related losses resulting from nonperformance by counterparties to its financial instruments. The Company performs credit evaluations of its counterparties under forward contracts and interest rate swap agreements and expects all counterparties to meet their obligations and has not experienced credit losses from its counterparties.

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

Hedging related transactions, recorded to other comprehensive income (expense), net of deferred taxes, are summarized below:

	Other Comprehensive Income (Expense)	
	2002(1)	**2001(1)**
	(Amounts in thousands)	
Recognize fair value at January 1, 2001 of:		
Interest rate swap agreements	**$ —**	$ (1,355)
Forward contracts	**—**	2,195
Reclassification to earnings for settlements during the year:		
Interest rate swap agreements	**4,336**	1,205
Forward contracts	**177**	660
Change in fair value:		
Interest rate swap agreements	**(6,603)**	(3,790)
Forward contracts	**1,929**	(3,060)
Year ended December 31	**$ (161)**	$ (4,145)

(1) Assumes an income tax rate of 37.0%

The following amounts net of deferred taxes represent the expected recognition into income for the Company's hedging contracts:

	Interest Rate Swap	Forward Contracts	Total
	(Amounts in millions)		
2003	$ (4.0)	$ 3.3	$ (0.7)

2004	(2.6)	—	(2.6)
2005	(1.6)	—	(1.6)
2006	(1.6)	—	(1.6)
2007	—	—	—
Thereafter	—	—	—
Total	$ (9.8)	$ 3.3	$ (6.5)

NOTE 9: DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

The following tables present financial information of certain consolidated balance sheet captions. The increases in the balances generally relate to the IFC acquisition in May 2002.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were:

	December 31,	
	2002	**2001**
	(Amounts in thousands)	
Land	**$ 56,468**	$ 46,655
Buildings, improvements, furniture and fixtures	**369,895**	344,682
Machinery, equipment, capital leases and construction in progress	**386,748**	266,094
	813,111	657,431
Less: Accumulated depreciation	**(348,663)**	(295,043)
Net property, plant and equipment	**$ 464,448**	$ 362,388

OTHER ASSETS

Other assets were:

	December 31,	
	2002	**2001**
	(Amounts in thousands)	
Deferred tax assets	**$ 7,572**	$ 61,205
Investments in unconsolidated affiliates	**34,753**	18,713
Prepaid financing fees	**22,216**	31,787
Deferred compensation funding	**15,564**	16,250
Other	**22,091**	17,239
Total	**$ 102,196**	$ 145,194

ACCRUED LIABILITIES

Accrued liabilities were:

	December 31,	
	2002	**2001**
	(Amounts in thousands)	

Wages, compensation, and other benefits	**$ 97,655**	$ 84,161
Restructuring costs	**16,394**	5,521
Interest expense	**13,836**	17,199
Commissions and royalties	**6,853**	3,372
Progress billings in excess of accumulated costs	**4,179**	13,747
Other	**83,880**	69,768
Total	**$ 222,797**	$ 193,768

RETIREMENT BENEFITS AND OTHER LIABILITIES

Retirement benefits and other liabilities were:

	December 31,	
	2002	2001
	(Amounts in thousands)	
Retirement benefits	**$ 277,066**	$ 146,761
Deferred taxes	**3,469**	61,189
Deferred compensation	**7,149**	10,752
Other	**16,533**	9,261
Total	**$ 304,217**	$ 227,963

NOTE 10: DEBT AND LEASE OBLIGATIONS

Debt, including capital lease obligations, consisted of:

	December 31,	
	2002	2001
	(Amounts in thousands)	
Term Loan Tranche A, interest rate of 3.94% and 5.19% (Euro) in 2002 and 4.69%, 4.88% and 5.06% in 2001	**$ 259,265**	$ 257,078
Term Loan Tranche B, interest rate of 5.63% and 5.81% in 2001	**—**	469,842
Term Loan Tranche C, interest rate of 4.19% in 2002	**580,473**	—
Senior Subordinated Notes net of discount, interest rate of 12.25%	**253,988**	243,370
Revolving credit agreement, interest rate of 3.94% in 2002 and 4.69% in 2001	**—**	70,000
Capital lease obligations and other	**632**	455
	1,094,358	1,040,745
Less amounts due within one year	**38,610**	44,523
Total debt due after one year	**$ 1,055,748**	$ 996,222

Maturities of debt, including capital lease obligations, for the next five years and beyond are:

	Term Loans	Senior Subordinated Notes	Capital Leases & Other	Total
		(Amounts in thousands)		
2003	$ 38,564	$ —	$ 46	$ 38,610
2004	81,176	—	172	81,348
2005	86,365	—	—	86,365
2006	63,196	—	—	63,196
2007	83,641	—	—	83,641
Thereafter	486,796	253,988	414	741,198

Total	$ 839,738	$ 253,988	$ 632	$ 1,094,358

Senior Credit Facilities

During the second quarter of 2002, in connection with the IFC acquisition, the Company amended and restated its senior credit facilities, to provide for:

- an incremental Tranche A term loan in an aggregate principal amount of $95.3 million; and
- a new Tranche C term loan facility of $700 million, to be used to repay all of the existing Tranche B term loan facility of $468.8 million, repay $11.3 million of the existing Tranche A term loan, reduce the then outstanding balance on the revolving credit facility by $40 million and provide funds to be used to finance the IFC acquisition.

As part of the amended and restated senior credit facility, several covenants were modified, including various financial ratios, interest rates were adjusted and other terms of the facility were changed primarily to allow for the IFC acquisition. The senior credit facilities are collateralized by substantially all of the Company's domestic assets and a pledge of 65% of the stock of the foreign subsidiaries.

The term loans require scheduled principal payments, which began on June 30, 2001 for the Tranche A loan and on December 31, 2002 for the Tranche C loan. The Tranche A and Tranche C loans have ultimate maturities of June 2006 and June 2009, respectively. The term loans bear floating interest rates based on LIBOR plus a borrowing spread, or the prime rate plus a borrowing spread, at the option of the Company. The borrowing spread for the senior credit facilities can increase or decrease based on the leverage ratio as defined in the credit facility agreement and on the Company's public debt ratings. In 2002, the Company made $33.8 million of mandatory and $170 million of optional principal repayments on the term loans. Additionally, during 2002 the Company repaid the $70 million outstanding at December 31, 2001 under the revolving credit agreement.

As a result of the $170 million of optional debt prepayments during 2002, a portion of previously paid deferred financing fees were written off and recognized as an extraordinary loss of $1.1 million, after tax consideration, summarized as follows:

	3rd Quarter	4th Quarter	Total
	(Amounts in millions)		
Optional prepayment	$ 70.0	$ 100.0	$ 170.0
Extraordinary loss (net of tax)	0.5	0.6	1.1(1)

(1) Does not include the $6.3 million extraordinary loss associated with repayment of Tranche B during the second quarter of 2002, which resulted in total extraordinary losses of $7.4 million.

Under the senior credit facilities, the Company also has a $300 million revolving credit facility that expires in June 2006. The revolving credit facility also allows the Company to issue up to $200 million in letters of credit. As of December 31, 2002, there were no amounts outstanding under the revolving credit facility, whereas $70 million was outstanding at December 31, 2001. The Company had issued $51.8 million and $27.4 million of letters of credit under the facility, which reduced borrowing capacity of the facility to $248.2 million and $202.6 million at December 31, 2002 and 2001, respectively.

The Company is required, under certain circumstances as defined in the credit facility, to use a percentage of excess cash generated from operations to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2003 under this provision.

Senior Subordinated Notes

At December 31, 2002, the Company had $188.5 million and EUR 65 million (equivalent to $68.25 million) face value of Senior Subordinated Notes outstanding. These notes were issued during 2000 by the Company and its Dutch subsidiary, Flowserve Finance B.V. At the date of issuance, the Senior Subordinated Notes, due in August 2010, resulted in proceeds of $285.9 million (U.S. dollar Notes) or $290.0 million face amount less discount of $4.1 million and EUR 98.6 million (Euro Notes) or EUR 100 million face amount less discount of EUR 1.4 million, which then equated to $89.2 million. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and of Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and of 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 Senior Subordinated notes were originally issued at a discount to yield 12.5%, but bear interest at 12.25%. Approximately one-third of these Senior Subordinated Notes were repurchased at a premium in 2001 utilizing proceeds of an equity offering, under which approximately 6.9 million shares of its common stock were issued for net proceeds of approximately $154 million. Proceeds under the offering were used to:

- prepay $101.5 million of the U.S. dollar tranche;
- prepay EUR 35 million ($31 million) of the Euro tranche of the senior subordinated notes; and
- pay associated prepayment premiums and other direct costs.

During 2001, as a result of the repurchase, the Company recorded an extraordinary item of $17.9 million, net of $7.1 million of tax, which represented the sum of the prepayment premiums, other direct costs, and the write-off of unamortized prepaid financing fees and discount for the portion of these notes that was prepaid.

Beginning in August 2005, all remaining Senior Subordinated Notes outstanding become callable by the Company at 106.125% of face value. Interest on the Notes is payable semi-annually in February and August.

Debt Covenants and Other Matters

The provisions of the Company's senior credit facilities require it to meet or exceed specified defined financial covenants, including a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of these and other debt agreements generally limit or restrict indebtedness, liens, sale and leaseback transactions, asset sales, and payment of dividends, capital expenditures, and other activities. As of December 31, 2002, the Company was in compliance with all covenants under its debt facilities.

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

Operating Leases

The Company has noncancelable operating leases for certain offices, service and quick response centers, certain manufacturing and operations facilities and machinery, equipment and automobiles. Rental expense relating to operating leases was $22,964 in 2002, $14,041 in 2001 and $13,020 in 2000.

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

2003	$ 20,614
2004	14,570
2005	10,429
2006	6,071
2007	4,220
Thereafter	4,644
Total	$ 60,548

NOTE 11: RETIREMENT AND POSTRETIREMENT BENEFITS

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

DOMESTIC DEFINED BENEFIT PLANS

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

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Service cost-benefits earned during the period	**$ 13,050**	$ 9,550	$ 8,753
Interest cost on projected benefit obligations	**15,970**	16,169	15,396
Expected return on plan assets	**(18,874)**	(20,346)	(19,996)

Settlement/curtailment of benefits	**570**	—	—
Amortization of unrecognized prior service benefit	**(1,408)**	(1,292)	(1,313)
Amortization of unrecognized net loss (gain)	**427**	—	(404)
Special termination expense	**—**	—	5,210
Domestic pension expense	**$ 9,735**	$ 4,081	$ 7,646

The special termination expense in 2000 represented costs relating to a plant closure and as such, were recorded as restructuring expense in the consolidated statements of operations.

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

	December 31,		
	2002	**2001**	**2000**
	(Amounts in thousands)		
Accumulated benefit obligations	**$ 246,715**	$ 238,163	$ 225,564
Plan assets, at fair value	**141,048**	191,017	225,659
Funded status	**(105,667)**	(47,146)	95
Unrecognized net loss	**95,079**	46,388	6,884
Unrecognized prior service benefit	**(16,170)**	(19,031)	(20,810)
Minimum pension liability	**(49,407)**	(17,111)	(1,019)
Deferred tax asset	**(29,085)**	(10,125)	—
Net pension liability	**$ (105,250)**	$ (47,025)	$ (14,850)
Discount rate	**6.75%**	7.0%	7.5%
Rate of increase in compensation levels	**4.5%**	4.5%	4.5%
Long-term rate of return on assets	**9.0%**	9.5%	9.5%

During 2002, the Company increased its additional minimum liability by $32.3 million, net of tax, as a component of other comprehensive expense. This additional liability resulted from the market performance of the assets during 2002 and the increase in employees participating in the plans resulting from the IFC, IDP and Invatec acquisitions. The Company increased its additional minimum liability by $16.2 million in 2001 for similar acquisition-related and asset performance reasons.

Based on the results of pension plan and asset returns during 2002 and on the likely return over the intermediate future, the Company reduced its assumption for the rate of return of such assets from 9.5% to 9.0% for 2002. Similarly, the Company reduced the discount rate from 7.0% to 6.75% to reflect current and intermediate outlook for prevailing rates. The Company continues to evaluate its assumptions for asset returns and discount rates based on prevailing economic factors, and plans to reduce the rate of return on plan assets in 2003 to a range between 8.5% to 8.75%. Additionally, the Company anticipates contributing a minimum of $16.8 million up to $47.7 million to its domestic pension plan during 2003.

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

	Year ended December 31,		
	2002	**2001**	**2000**
	(Amounts in thousands)		
Beginning benefit obligations	**$ 238,163**	$ 225,564	$ 203,761
Service cost	**13,050**	9,550	8,753
Interest cost	**15,970**	16,169	15,396
Acquisitions	**4,070**	—	—
Curtailment of benefits	**174**	—	—
Plan amendments	**640**	346	(842)
Actuarial loss	**5,095**	10,429	11,323
Benefits paid	**(30,447)**	(26,011)	(18,037)
Special termination costs	**—**	2,116	5,210
Ending benefit obligations	**$ 246,715**	$ 238,163	$ 225,564

The special termination costs in 2001 and 2000 represent a liability assumed in the acquisition of IDP that was reclassified from the restructuring reserve.

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

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Beginning plan assets	**$ 191,017**	$ 225,659	$ 233,722
(Loss) return on plan assets	**(26,343)**	(9,002)	9,391
Company contributions	**4,593**	371	583
Acquisitions	**2,228**	—	—
Benefits paid	**(30,447)**	(26,011)	(18,037)
Ending plan assets	**$ 141,048**	$ 191,017	$ 225,659

FOREIGN DEFINED BENEFIT PLANS

Net defined benefit pension expense for foreign pension plans was:

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Service cost-benefits earned during the period	**$ 1,641**	$ 1,839	$ 1,506
Interest cost on projected benefit obligations	**5,244**	2,703	1,193
Expected return on plan assets	**(3,625)**	(2,955)	(1,460)
Curtailment	**7**	50	—
Amortization of unrecognized net (gain) loss	**402**	(47)	(55)
Foreign pension expense	**$ 3,669**	$ 1,590	$ 1,184

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

	December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Accumulated benefit obligations	**$ 120,181**	$ 44,898	$ 46,036
Plan assets, at fair value	**42,420**	33,384	37,593
Funded status	**(77,761)**	(11,514)	(8,443)
Unrecognized net transition asset	**—**	—	(55)
Minimum pension liability	**(10,782)**	(131)	(131)
Deferred tax liability	**(6,331)**	—	—
Unrecognized net loss	**21,103**	6,104	1,896
Net pension liability	**$ (73,771)**	$ (5,541)	$ (6,733)
Discount rate	**5.79%**	6.15%	5.99%
Rate of increase in compensation levels	**3.1%**	3.3%	3.4%
Long-term rate of return on assets	**8.1%**	8.0%	7.7%

The increase in the benefit obligations during 2002 predominately reflects the obligations assumed under the IFC acquisition. During 2002 the Company increased its additional minimum liability by $10.6 million, net of tax, as a component of other comprehensive expense. This additional liability resulted from the market performance of the assets during 2002 and the increase in employees participating in the plans resulting from the IFC acquisition.

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

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Beginning benefit obligations	**$ 44,898**	$ 46,036	$ 4,984
Acquisitions	**55,795**	—	39,650
Service cost	**1,641**	1,839	1,507
Interest cost	**5,244**	2,703	1,193
Employee contributions	**519**	568	385
Curtailments	**—**	(3,606)	—
Actuarial loss (gain)	**2,201**	1,706	(820)
Benefits paid	**(4,466)**	(2,481)	(1,162)
Foreign exchange impact	**14,349**	(1,867)	299
Ending benefit obligations	**$ 120,181**	$ 44,898	$ 46,036

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

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Beginning plan assets	**$ 33,384**	$ 37,593	$ 5,411
Acquisitions	**9,427**	—	33,689
Employee contributions	**519**	568	385
Company contributions	**4,536**	2,194	904
Foreign exchange impact	**3,828**	(1,165)	(285)
Return (loss) on plan assets	**(4,808)**	(3,325)	(1,651)
Benefits paid	**(4,466)**	(2,481)	(860)
Ending plan assets	**$ 42,420**	$ 33,384	$ 37,593

DISCLOSURES FOR DEFINED BENEFIT PLANS WITH ACCUMULATED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS

The following summarizes key combined domestic and foreign pension plan information:

	December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Accumulated benefit obligation	**$ 366,896**	$ 279,593	$ 19,411
Fair value of plan assets	**183,468**	224,401	213

DEFINED CONTRIBUTION PLANS

The Company sponsors several defined contribution plans covering substantially all domestic and Canadian employees and certain other foreign employees. Employees may contribute to these plans, and these contributions are matched in varying amounts by the Company. The Company may also make additional contributions for eligible employees. Defined contribution plan expense for the Company was $6,633 in 2002, $9,421 in 2001, and $7,324 in 2000.

POSTRETIREMENT MEDICAL PLANS

The Company also sponsors several defined benefit postretirement health care plans covering most current and a limited number of future retirees in the United States. These plans are for medical and dental benefits and are administered through insurance companies and health maintenance organizations. The plans include participant contributions, deductibles, co-insurance provisions and other limitations, and are integrated with Medicare and other group plans. The plans are funded by the Company as insured benefits and health maintenance organization premiums are incurred. The benefits are no longer available to new employees and most existing employees.

Net postretirement benefit expense is comprised of:

	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Service cost—benefits earned during the period	**$ 292**	$ 246	$ 869
Interest cost on accumulated postretirement benefit obligation	**6,839**	6,630	4,707
Amortization of unrecognized prior service benefit	**(2,685)**	(2,306)	(2,002)
Amortization of net loss	**1,065**	—	—
Curtailment	**—**	—	5,904
Postretirement benefit expense	**$ 5,511**	$ 4,570	$ 9,478

The following is a reconciliation of the accumulated postretirement benefits obligations:

	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Beginning accumulated postretirement benefit obligations	**$ 103,440**	$ 89,331	$ 49,045
Service cost	**292**	246	869
Interest cost	**6,839**	6,630	4,707
Curtailment	**—**	—	11,537
Plan amendments	**(14,362)**	—	(3,000)
Acquisition	**1,076**	—	25,000
Actuarial loss	**2,345**	15,661	5,441
Benefits paid	**(7,960)**	(8,428)	(4,268)
Ending accumulated postretirement benefit obligations	**$ 91,670**	$ 103,440	$ 89,331

During 2002, the Company renegotiated certain of its union contracts which limited the Company's obligation for postretirement medical costs. The effect of this change will generally reduce expenses in future periods.

Effective with the purchase of IDP on August 8, 2000, the Company assumed postretirement liabilities for all former eligible IDP active employees as of the date of the purchase. In connection with the restructuring plans announced in 2000, a curtailment liability of $11.5 million was recognized to reflect termination related postretirement obligations. Of this amount, $5.9 million was included in restructuring expense as it related to former Flowserve employees and $5.6 million was included in goodwill as it related to former IDP employees.

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

	December 31, 2002	2001	2000
	(Amounts in thousands)		
Accumulated postretirement benefit obligations	**$ 91,670**	$ 103,440	$ 89,331
Unrecognized prior service benefit	**23,272**	11,595	14,014
Unrecognized net loss	**(21,033)**	(19,753)	(4,205)
Accrued postretirement benefits	**$ 93,909**	$ 95,282	$ 99,140
Discount rate	**6.75%**	7.0%	7.5%

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

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

The Company made contributions to the defined benefit postretirement medical plans of $7,960 in 2002, $8,428 in 2001 and $4,268 in 2000.

NOTE 12: CONTINGENCIES

As of December 31, 2002, the Company was involved as a "potentially responsible party" (PRP) at two former public waste disposal sites that may be subject to remediation under pending government procedures. The sites are in various stages of evaluation by federal and state environmental authorities. The projected cost of remediating these sites, as well as the Company's alleged "fair share" allocation, is uncertain and speculative until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified, and the identification and location of additional parties is continuing under applicable federal or state law. Many of the other parties identified are financially strong and solvent companies that appear able to pay their share of the remediation costs. Based on the Company's preliminary information about the waste disposal practices at these sites and the environmental regulatory process in general, the Company believes that it is likely that ultimate remediation liability costs for each site will be apportioned among all liable parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites.

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

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

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

NOTE 13: WARRANTY RESERVE

The following is a summary of the activity in the Company's warranty reserve during 2002:

	2002
Balance at the beginning of the year	**$ 15,098**
Accruals during the year for warranty expense	**20,625**
Additions via acquisition	**1,070**
Settlements made during the year	**(21,364)**
Balance at the end of the year	**$ 15,429**

NOTE 14: SHAREHOLDERS' EQUITY

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

NOTE 15: INCOME TAXES

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

	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Current:			
U.S. federal	**$ (22,384)**	$ —	$ (98)
Non-U.S.	**17,868**	20,992	8,775
State and local	**1,035**	373	1,097
Total current	**(3,481)**	21,365	9,774
Deferred:			
U.S. federal	**23,288**	(24,919)	(2,924)
Non-U.S.	**7,565**	6,545	(455)
State and local	**(27)**	(865)	319
Total deferred	**30,826**	(19,239)	(3,060)
Total provision	**$ 27,345**	$ 2,126	$ 6,714

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

	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Earnings before extraordinary items	**$ 31,674**	$ 9,275	$ 7,876
Extraordinary items	**(4,329)**	(7,149)	(1,162)
Total provision	**$ 27,345**	$ 2,126	$ 6,714

During 2002, the Company recorded an extraordinary item for costs totaling $11.7 million associated with the prepayment of long-term debt. The $4.3 million tax benefit on the extraordinary item reflects a federal and state benefit at 37.0%.

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

	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
U.S. federal income tax rate	**35.0%**	35.0%	35.0%
Non-U.S. tax rate differential and utilization of operating loss carryforwards	**1.6**	1.9	1.2
State and local income taxes, net	**0.7**	(0.5)	4.5
Utilization of tax credits	**—**	(0.2)	(6.5)
Extraterritorial income exclusion	**(4.1)**	2.3	(4.8)
Goodwill	**—**	5.3	4.6
Meals and entertainment	**1.1**	4.3	4.0
Equity in income of unconsolidated subsidiaries	**—**	(3.1)	(5.3)
Tax contingencies	**2.5**	(12.5)	—
Other, net	**(2.4)**	3.7	1.3

Effective tax rate	**34.4%**	36.2%	34.0%

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

	December 31,	
	2002	**2001**
	(Amounts in thousands)	
Deferred tax assets related to:		
Retirement benefits	**$ 77,478**	$ 55,688
Net operating loss carryforwards	**20,880**	35,255
Compensation accruals	**14,344**	7,147
Inventories	**9,878**	4,690
Credit carryforwards	**26,187**	35,797
Loss on dispositions	**1,962**	1,693
Warranty and accrued liabilities	**2,503**	5,915
Restructuring charge	**4,511**	4,117
Other	**—**	—
Total deferred tax assets	**157,743**	150,302
Valuation allowances	**(17,634)**	(18,603)
Net deferred tax assets	**$ 140,109**	$ 131,699
Deferred tax liabilities related to:		
Property, plant and equipment	**$ 39,616**	$ 38,736
Goodwill	**41,821**	30,341
Reserve for open tax years and other	**21,845**	27,370
Total deferred tax liabilities	**$ 103,282**	$ 96,447
Deferred tax assets, net	**$ 36,827**	$ 35,252

The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of net operating loss and foreign tax credit carryforwards. The decrease in the valuation allowances during 2002 was primarily attributable to the Company's ability to use foreign tax credit carryforwards. The Company had approximately $59.7 million of net operating loss carryforwards at December 31, 2002, of which approximately 86% was generated outside the United States of America. Net operating losses generated in the United States will begin to expire in 2017, if unused. Additionally, the Company had approximately $25.8 million of foreign tax credit carryforwards at December 31, 2002, which expire in 2005 through 2006 if unused.

Earnings before income taxes comprised:

	Year ended December 31,		
	2002	**2001**	**2000**
	(Amounts in thousands)		
U.S.	**$ 12,622**	$ (51,694)	$ 1,114
Non-U.S.	**79,448**	77,323	22,070
Total	**$ 92,070**	$ 25,629	$ 23,184

Undistributed earnings of the Company's non-U.S. subsidiaries amounted to approximately $226.4 million at December 31, 2002. These earnings are considered to be indefinitely reinvested and, accordingly, no additional United States income taxes or non-U.S.

withholding taxes have been provided. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical.

NOTE 16: SEGMENT INFORMATION

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

The Company has the following three divisions, each of which constitutes a business segment:

- Flowserve Pump Division;
- Flow Solutions Division; and
- Flow Control Division.

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, who reports directly to the Division President and the Chief Financial Officer. 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's corporate headquarters does not constitute a separate division or business segment.

Amounts classified as All Other include the corporate headquarters costs and other minor entities that are not considered separate segments. The Company evaluates segment performance and allocates resources based on profit or loss excluding integration expenses, restructuring expense, interest expense, other income or expense, income taxes, extraordinary items, and in 2002 a one-time purchase accounting adjustment associated with the write-up and subsequent sale of acquired inventory. Intersegment sales and transfers are recorded at cost plus a profit margin.

Effective July 1, 2002, the Company realigned its operating segments. Under the new organization, the Flow Solutions Division includes the Company's seal operations, while the Company's pump and valve service businesses (previously included in the Flow Solutions Division) have been included, as appropriate, in the Flowserve Pump Division and Flow Control Division, respectively. Segment information for all periods presented herein have been reported under the new organization structure.

Year ended December 31, 2002	Flowserve Pump	Flow Solutions	Flow Control	Subtotal Reportable Segments	All Other	Consolidated Total
			(Amounts in thousands)			
Sales to external customers	$ 1,199,087	$ 327,130	$ 719,113	$ 2,245,330	$ 6,001	$ 2,251,331
Intersegment sales	5,517	23,537	7,247	36,301	(36,301)	—
Segment operating income (before special items)(1)	134,731	64,684	48,421	247,836	(33,988)	213,848
Depreciation and amortization	30,374	7,189	22,456	60,019	5,294	65,313
Identifiable assets	$ 1,370,153	$ 182,984	$ 991,100	$ 2,544,237	$ 63,428	$ 2,607,665
Capital expenditures	12,145	3,066	11,104	26,315	4,560	30,875

Year ended December 31, 2001	Flowserve Pump	Flow Solutions	Flow Control	Subtotal Reportable Segments	All Other	Consolidated Total
			(Amounts in thousands)			
Sales to external customers	$ 1,161,250	$ 308,092	$ 442,790	$ 1,912,132	$ 5,375	$ 1,917,507
Intersegment sales	8,976	19,917	8,697	37,590	(37,590)	—
Segment operating income (before special items)(2)	144,460	51,501	39,243	235,204	(31,215)	203,989
Depreciation and amortization	44,475	9,451	13,751	67,677	6,178	73,855
Identifiable assets	$ 1,360,743	$ 194,255	$ 357,106	$ 1,912,104	$ 139,871	$ 2,051,975
Capital expenditures	19,307	5,217	8,899	33,423	1,802	35,225

Year ended December 31, 2000	Flowserve Pump	Flow Solutions	Flow Control	Subtotal Reportable Segments	All Other	Consolidated Total
			(Amounts in thousands)			
Sales to external customers	$ 792,630	$ 310,447	$ 429,213	$ 1,532,290	$ 6,003	$ 1,538,293
Intersegment sales	15,941	16,966	10,925	43,832	(43,832)	—
Segment operating income (before special items)(3)	89,690	46,580	39,736	176,006	(29,400)	146,606
Depreciation and amortization	30,147	9,511	13,525	53,183	3,854	57,037
Identifiable assets	$ 1,421,921	$ 193,247	$ 343,007	$ 1,958,175	$ 151,968	$ 2,110,143

Capital expenditures	10,915	6,935	5,384	23,234	4,585	27,819

(1) Special items reflect costs associated with the IFC acquisition including a $5.2 million negative purchase accounting adjustment associated with the required write-up and sale of inventory (recorded as a cost of sales), integration expense of $16.2 million and restructuring expense of $4.3 million.

(2) Special items reflect integration expense of $63.0 million and restructuring expense of $(1.2) million associated with the acquisition and integration of IDP.

(3) Special items reflect integration expense of $35.2 million and restructuring expense of $19.4 million associated with the acquisition and integration of IDP.

RECONCILIATION OF SEGMENT INFORMATION TO CONSOLIDATED AMOUNTS

Significant items from the Company's reportable segments can be reconciled to the consolidated amounts as follows:

Profit	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Total segment operating income (before special items)	**$ 247,836**	$ 235,204	$ 176,006
Corporate expenses and other	**33,988**	31,215	29,400
Net interest expense	**92,933**	118,072	70,321
Other expense (income)	**3,079**	(1,547)	(1,474)
Special items:			
Purchase accounting adjustment associated with the required write-up of inventory	**5,240**	—	—
Integration expenses	**16,179**	63,043	35,211
Restructuring expenses	**4,347**	(1,208)	19,364
Earnings before income taxes	**$ 92,070**	$ 25,629	$ 23,184

Assets	Year ended December 31, 2002	2001	2000
	(Amounts in thousands)		
Total assets for reportable segments	**$ 2,544,237**	$ 1,912,104	$ 1,958,175
Other assets	**128,524**	213,175	220,220
Elimination of inter-segment receivables	**(65,096)**	(73,304)	(68,252)
Total assets	**$ 2,607,665**	$ 2,051,975	$ 2,110,143

GEOGRAPHIC INFORMATION

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

	Year ended December 31, 2002			
	Sales	%	Long-lived Assets	%
	(Amounts in thousands)			
United States	**$ 1,171,084**	**52.0%**	**$ 1,248,709**	**79.6%**
Europe	**787,910**	**35.0%**	**278,748**	**17.8%**
Other(1)	**292,337**	**13.0%**	**41,604**	**2.6%**
Consolidated total	**$ 2,251,331**	**100.0%**	**$ 1,569,061**	**100.0%**

Year ended December 31, 2001

	Sales	%	Long-lived Assets	%
	(Amounts in thousands)			
United States	$ 1,095,622	57.1%	$ 802,835	73.5%
Europe	568,226	29.7%	256,891	23.5%
Other(1)	253,659	13.2%	32,905	3.0%
Consolidated total	$ 1,917,507	100.0%	$ 1,092,631	100.0%

	Year ended December 31, 2000			
	Sales	%	Long-lived Assets	%
	(Amounts in thousands)			
United States	$ 950,783	61.8%	$ 877,322	76.6%
Europe	372,442	24.2%	231,530	20.2%
Other(1)	215,068	14.0%	36,262	3.2%
Consolidated total	$ 1,538,293	100.0%	$ 1,145,114	100.0%

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

Net sales to international customers, including export sales from the United States, represented 56.0%, 48.1% and 38.0% in 2002, 2001 and 2000, respectively.

MAJOR CUSTOMER INFORMATION

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

NOTE 17: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following presents the components of accumulated other comprehensive income (loss), net of related tax effects:

	Year ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		
Foreign currency translation	**$ (82,014)**	$ (120,765)	$ (83,205)
Minimum pension liability	**(60,189)**	(17,242)	(1,019)
Hedging derivative instruments	**(4,306)**	(4,145)	—
Total	**$ (146,509)**	$ (142,152)	$ (84,224)

NOTE 18: GUARANTOR AND FINANCIAL INFORMATION

Pursuant to the Senior Subordinated Notes, the following consolidating financial information presents the consolidating balance sheet as of December 31, 2002 and 2001, and the related statements of operations and cash flows for each of the three years in the period ended December 31, 2002 for:

- Flowserve Corporation, the parent;
- Flowserve Finance B.V.;

- the guarantor subsidiaries;
- the nonguarantor subsidiaries; and
- the Company on a consolidated basis.

The information includes elimination entries necessary to consolidate Flowserve Corporation, the parent, with Flowserve Finance, B.V., and guarantor and nonguarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor subsidiaries and the nonguarantor subsidiaries are omitted because of immateriality.

CONSOLIDATING STATEMENT OF OPERATIONS

	Year ended December 31, 2002					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					
Sales	$ —	$ —	$ 1,239,095	$ 1,113,970	$ (101,734)	$ 2,251,331
Cost of sales	—	—	908,669	758,865	(101,734)	1,565,800
Gross profit	—	—	330,426	355,105	—	685,531
Selling, general and administrative expense	—	—	301,894	175,029	—	476,923
Integration expenses	—	—	14,224	1,955	—	16,179
Restructuring expenses	—	—	2,718	1,629	—	4,347
Operating income	—	—	11,590	176,492	—	188,082
Net interest expense	(13,342)	15,736	80,959	9,580	—	92,933
Other expense (income), net	34	—	(50,692)	53,737	—	3,079
Equity in earnings of subsidiaries	(52,012)	—	—	—	52,012	—
Earnings (loss) before income taxes	65,320	(15,736)	(18,677)	113,175	(52,012)	92,070
Provision (benefit) for income taxes	4,924	1,923	(6,910)	31,737	—	31,674
Net earnings (loss) before extraordinary items	60,396	(17,659)	(11,767)	81,438	(52,012)	60,396
Extraordinary items, net of income taxes	7,371	—	—	—	—	7,371
Net earnings (loss)	$ 53,025	$ (17,659)	$ (11,767)	$ 81,438	$ (52,012)	$ 53,025

CONSOLIDATING STATEMENT OF OPERATIONS

	Year ended December 31, 2001					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					
Sales	$ —	$ —	$ 1,176,386	$ 851,043	$ (109,922)	$ 1,917,507
Cost of sales	—	—	826,849	586,028	(109,922)	1,302,955
Gross profit	—	—	349,537	265,015	—	614,552
Selling, general and administrative expense	—	—	271,915	138,648	—	410,563

Integration expenses	—	—	50,187	12,856	—	63,043
Restructuring expenses	—	—	(1,108)	(100)	—	(1,208)
Operating income	—	—	28,543	113,611	—	142,154
Net interest expense	19,269	2,174	86,731	9,898	—	118,072
Other expense (income), net	—	2	(29,046)	27,497	—	(1,547)
Equity in earnings of subsidiaries	(22,814)	—	—	—	22,814	—
Earnings (loss) before income taxes	3,545	(2,176)	(29,142)	76,216	(22,814)	25,629
Provision (benefit) for income taxes	(7,130)	—	(10,782)	27,187	—	9,275
Net earnings (loss) before extraordinary items	10,675	(2,176)	(18,360)	49,029	(22,814)	16,354
Extraordinary items, net of income taxes	(12,172)	(5,679)	—	—	—	(17,851)
Net earnings (loss)	$ (1,497)	$ (7,855)	$ (18,360)	$ 49,029	$ (22,814)	$ (1,497)

CONSOLIDATING STATEMENT OF OPERATIONS

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

CONSOLIDATING BALANCE SHEET

	December 31, 2002					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ —	$ —	$ 6,937	$ 42,356	$ —	$ 49,293
Intercompany receivables	181,156	3,822	48,691	49,962	(283,631)	—
Accounts receivable, net	—	1	222,112	268,698	—	490,811
Inventories	—	—	232,406	198,837	—	431,243
Deferred taxes	—	—	24,520	1,940	—	26,460
Prepaid expenses	—	—	18,629	14,596	—	33,225
Total current assets	181,156	3,823	553,295	576,389	(283,631)	1,031,032
Property, plant and equipment, net	—	—	244,298	220,150	—	464,448
Investment in subsidiaries	377,949	296,065	514,853	—	(1,188,867)	—
Intercompany receivables	1,219,430	82,532	330,260	220,422	(1,852,644)	—
Goodwill	—	—	665,321	168,171	—	833,492
Other intangible assets, net	—	—	146,967	29,530	—	176,497
Other assets	19,468	2,748	48,191	31,789	—	102,196
Total assets	$ 1,798,003	$ 385,168	$ 2,503,185	$ 1,246,451	$ (3,325,142)	$ 2,607,665
Current liabilities:						
Accounts payable	$ —	$ —	$ 96,418	$ 134,185	$ —	$ 230,603
Intercompany payables	(597)	18,002	242,783	23,443	(283,631)	—
Income taxes payable	16,496	185	(25,164)	8,483	—	—
Accrued liabilities	10,464	3,168	110,342	98,823	—	222,797
Long-term debt due within one year	38,564	—	—	46	—	38,610
Total current liabilities	64,927	21,355	424,379	264,980	(283,631)	492,010
Long-term debt due after one year	977,386	67,546	420	10,396	—	1,055,748
Intercompany payables	—	324,617	1,420,559	107,468	(1,852,644)	—
Retirement benefits and other liabilities	—	—	168,214	136,003	—	304,217
Shareholders' equity:						
Serial preferred stock	—	—	—	—	—	—
Common shares	72,018	—	2	182,331	(182,333)	72,018
Capital in excess of par value	477,635	—	300,963	426,194	(727,157)	477,635
Retained earnings (deficit)	409,023	(25,857)	242,939	201,756	(418,838)	409,023
	958,676	(25,857)	543,904	810,281	(1,328,328)	958,676
Treasury stock, at cost	(63,809)	—	—	—	—	(63,809)
Deferred compensation obligation	7,332	—	—	—	—	7,332
Accumulated other comprehensive (loss) income	(146,509)	(2,493)	(54,291)	(82,677)	139,461	(146,509)
Total shareholders' equity	755,690	(28,350)	489,613	727,604	(1,188,867)	755,690
Total liabilities and shareholders' equity	$ 1,798,003	$ 385,168	$ 2,503,185	$ 1,246,451	$ (3,325,142)	$ 2,607,665

CONSOLIDATING BALANCE SHEET

	December 31, 2001					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					
Current assets:						
Cash and cash equivalents	$ —	$ —	$ —	$ 21,533	$ —	$ 21,533

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Intercompany receivables	82,513	—	62,875	77,513	(222,901)	—
Accounts receivable, net	—	—	231,484	224,377	—	455,861
Inventories	—	—	201,707	145,884	—	347,591
Deferred taxes	—	—	33,727	2,589	—	36,316
Prepaid expenses	—	—	22,981	13,857	—	36,838
Total current assets	82,513	—	552,774	485,753	(222,901)	898,139
Property, plant and equipment, net	—	—	201,595	160,793	—	362,388
Investment in subsidiaries	399,026	—	464,633	—	(863,659)	—
Intercompany receivables	901,675	85,254	6,198	34,003	(1,027,130)	—
Goodwill	—	—	414,465	100,710	—	515,175
Other intangible assets, net	—	—	115,123	15,956	—	131,079
Other assets	29,094	2,693	100,320	13,087	—	145,194
Total assets	$ 1,412,308	$ 87,947	$ 1,855,108	$ 810,302	$ (2,113,690)	$ 2,051,975
Current liabilities:						
Accounts payable	$ 145	$ —	$ 85,861	$ 92,474	$ —	$ 178,480
Intercompany payables	4,240	(1,191)	45,004	174,848	(222,901)	—
Income taxes payable	(1,257)	—	(15,606)	16,863	—	—
Accrued liabilities	15,034	2,665	107,191	68,878	—	193,768
Long-term debt due within one year	44,521	—	2	—	—	44,523
Total current liabilities	62,683	1,474	222,452	353,063	(222,901)	416,771
Long-term debt due after one year	938,606	57,163	420	33	—	996,222
Intercompany payables	—	37,115	939,245	50,770	(1,027,130)	—
Retirement benefits and other liabilities	—	—	172,483	55,480	—	227,963
Shareholders' equity:						
Serial preferred stock	—	—	—	—	—	—
Common shares	60,518	—	2	182,331	(182,333)	60,518
Capital in excess of par value	211,113	—	313,221	72,991	(386,212)	211,113
Retained earnings (deficit)	355,998	(8,198)	237,279	162,241	(391,322)	355,998
	627,629	(8,198)	550,502	417,563	(959,867)	627,629
Treasury stock, at cost	(82,718)	—	—	—	—	(82,718)
Deferred compensation obligation	8,260	—	—	—	—	8,260
Accumulated other comprehensive (loss) income	(142,152)	393	(29,994)	(66,607)	96,208	(142,152)
Total shareholders' equity	411,019	(7,805)	520,508	350,956	(863,659)	411,019
Total liabilities and shareholders' equity	$ 1,412,308	$ 87,947	$ 1,855,108	$ 810,302	$ (2,113,690)	$ 2,051,975

CONSOLIDATING STATEMENT OF CASH FLOWS

	Year ended December 31, 2002					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					
Cash flows—Operating activities:						
Net earnings (loss)	$ 53,025	$ (17,659)	$ (11,767)	$ 81,438	$ (52,012)	$ 53,025
Adjustments to reconcile net earnings						

(loss) to net cash provided (used) by operating activities:						
Depreciation	—	—	32,444	24,303	—	56,747
Amortization	—	—	7,055	1,511	—	8,566
Amortization of prepaid financing fees and discount	4,736	413	—	—	—	5,149
Write-off of unamortized prepaid financing fees	5,842	—	—	—	—	5,842
Other direct costs of long-term debt repayment	5,700	—	—	—	—	5,700
Net (gain) loss on disposition of fixed assets	—	—	24	(1,747)	—	(1,723)
Change in assets and liabilities, net of effects of acquisitions:						
Accounts receivable	—	22	44,654	31,864	—	76,540
Inventories	—	—	15,507	7,027	—	22,534
Intercompany receivable and payable	(427,096)	272,529	348,030	(248,689)	55,226	—
Prepaid expenses	—	643	4,252	8,816	—	13,711
Other assets	(810)	181	19,225	(23,346)	—	(4,750)
Accounts payable	160	—	(5,449)	12,451	—	7,162
Accrued liabilities	(3,786)	308	(40,724)	18,689	—	(25,513)
Income taxes payable	17,752	180	(9,384)	(13,249)	—	(4,701)
Retirement benefits and other liabilities	—	—	886	9,743	—	10,629
Net deferred taxes	—	—	2,729	17,220	—	19,949
Net cash flows provided (used) by operating activities	(344,477)	256,617	407,482	(73,969)	3,214	248,867
Cash flows—Investing activities:						
Capital expenditures	—	—	(16,220)	(14,655)	—	(30,875)
Cash received for disposals of assets	—	—	8,720	—	—	8,720
Payments for acquisitions, net of cash acquired	—	—	(535,067)	—	—	(535,067)
Change in investments in subsidiaries	16,399	(258,421)	(32,934)	(50,252)	325,208	—
Net cash flows (used) provided by investing activities	16,399	(258,421)	(575,501)	(64,907)	325,208	(557,222)
Cash flows—Financing activities:						
Net repayments under lines of credit	(70,000)	—	—	—	—	(70,000)
Proceeds from long-term debt	795,306	—	—	—	—	795,306
Payments of long-term debt	(683,923)	—	—	—	—	(683,923)
Payment of prepaid financing fees	(6,080)	—	—	—	—	(6,080)
Other direct costs of long-term debt repayment	—	—	—	—	—	—
Proceeds from issuance of common stock	275,925	—	—	—	—	275,925
Cash dividends paid	—	—	24,402	(24,402)	—	—
Net proceeds from stock option activity	16,850	1,804	150,539	176,079	(328,422)	16,850
Net cash flows provided (used) by financing activities	328,078	1,804	174,941	151,677	(328,422)	328,078
Effect of exchange rate changes	—	—	15	8,022	—	8,037
Net change in cash and cash equivalents	—	—	6,937	20,823	—	27,760
Cash and cash equivalents at beginning of year	—	—	—	21,533	—	21,533
Cash and cash equivalents at end of year	$ —	$ —	$ 6,937	$ 42,356	$ —	$ 49,293

CONSOLIDATING STATEMENT OF CASH FLOWS

	Year ended December 31, 2001					
	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					

Cash flows—Operating activities:						
Net earnings (loss)	$ (1,497)	$ (7,855)	$ (18,360)	$ 49,029	$ (22,814)	$ (1,497)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:						
Depreciation	—	—	28,703	20,188	—	48,891
Amortization	—	—	21,365	3,599	—	24,964
Amortization of prepaid financing fees and discount	5,857	879	—	—	—	6,736
Write-off of unamortized prepaid financing fees	5,844	1,810	—	—	—	7,654
Other direct costs of long-term debt repayment	13,476	3,844	—	—	—	17,320
Net gain (loss) on disposition of fixed assets	—	—	114	(897)	—	(783)
Impairment of assets	—	—	679	—	—	679
Change in assets and liabilities, net of effects of acquisitions:						
Accounts receivable	12	—	12,462	3,130	—	15,604
Inventories	—	—	(13,765)	(41,075)	—	(54,840)
Intercompany receivable and payable	(136,416)	36,017	6,065	62,487	31,847	—
Prepaid expenses	—	—	6,945	(21,631)	—	(14,686)
Other assets	(859)	(48)	28,760	(37,410)	—	(9,557)
Accounts payable	(1,466)	—	13,277	(15,321)	—	(3,510)
Accrued liabilities	13,482	2,560	(23,728)	(48,175)	—	(55,861)
Income taxes payable	(619)	—	(20,193)	20,996	—	184
Retirement benefits and other liabilities	8,221	—	(37,734)	17,004	—	(12,509)
Net deferred taxes	—	—	(23,236)	6,518	—	(16,718)
Net cash flows (used) provided by operating activities	(93,965)	37,207	(18,646)	18,442	9,033	(47,929)
Cash flows—Investing activities:						
Capital expenditures	—	—	(20,537)	(14,688)	—	(35,225)
Cash received for disposals of assets	—	—	5,855	2,868	—	8,723
Payments for acquisitions, net of cash acquired	—	—	(1,685)	—	—	(1,685)
Change in investments in subsidiaries	—	—	(21,541)	—	21,541	—
Net cash flows used by investing activities	—	—	(37,908)	(11,820)	21,541	(28,187)
Cash flows—Financing activities:						
Net borrowings under lines of credit	70,000	—	—	—	—	70,000
Proceeds from long-term debt	—	—	420	—	—	420
Payments of long-term debt	(124,580)	(31,000)	—	—	—	(155,580)
Payments of prepaid financing fees						
Other direct costs of long-term debt repayment	(13,476)	(3,844)	—	—	—	(17,320)
Proceeds from issuance of common stock	154,022	—	—	—	—	154,022
Cash dividends paid	—	—	12,186	(12,186)	—	—
Net proceeds from stock option activity	7,999	(2,363)	43,955	(18,916)	(22,676)	7,999
Net cash flows provided (used) by financing activities	93,965	(37,207)	56,561	(31,102)	(22,676)	59,541
Effect of exchange rate changes	—	—	(7)	(4,226)	—	(4,233)
Net change in cash and cash equivalents	—	—	—	(28,706)	7,898	(20,808)
Cash and cash equivalents at beginning of year	—	—	—	50,239	(7,898)	42,341
Cash and cash equivalents at end of year	$ —	$ —	$ —	$ 21,533	$ —	$ 21,533

CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2000

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
	(Amounts in thousands)					
Cash flows—Operating activities:						
Net earnings (loss)	$ 13,241	$ (343)	$ 39,388	$ 12,664	$ (51,709)	$ 13,241
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:						
Depreciation	6,221	—	25,778	10,677	—	42,676
Amortization	461	—	11,088	2,812	—	14,361
Amortization of prepaid financing fees and discounts	2,773	301	—	—	—	3,074
Write-off of unamortized prepaid financing fees	—	—	2,216	—	—	2,216
Other direct costs of long-term debt repayment	—	—	1,013	—	—	1,013
Net gain (loss) on disposition of fixed assets	—	—	(260)	410	—	150
Impairment of assets	—	—	3,673	—	—	3,673
Change in assets and liabilities, net of effects of acquisitions and dispositions:						
Accounts receivable	(4,065)	—	(32,305)	(33,732)	—	(70,102)
Inventories	7,380	—	(16,558)	7,215	—	(1,963)
Intercompany receivable and payable	(589,288)	(87,832)	703,177	143,990	(170,047)	—
Prepaid expenses	(403)	—	(2,729)	15,737	(4,637)	7,968
Other assets	(17,289)	(354)	(7,888)	750	—	(24,781)
Accounts payable	(6,891)	—	6,840	21,831	(3,696)	18,084
Accrued liabilities	4,544	111	(19,280)	(2,658)	(932)	(18,215)
Income taxes payable	173	—	665	(9,696)	1,219	(7,639)
Retirement benefits and other liabilities	15,222	—	21,042	(4,443)	932	32,753
Net deferred taxes	(6,533)	—	10,214	(1,759)	—	1,922
Net cash flows provided (used) by operating activities	(574,454)	(88,117)	746,074	163,798	(228,870)	18,431
Cash flows—Investing activities:						
Capital expenditures	(7,330)	—	(9,300)	(11,189)	—	(27,819)
Cash received for disposals of assets	—	—	5,368	36	—	5,404
Payments for acquisitions, net of cash acquired	(387,793)	—	(241,019)	(699,357)	557,455	(770,714)
Change in investments in subsidiaries	—	—	(169,662)	—	169,662	—
Net cash flows used by investing activities	(395,123)	—	(414,613)	(710,510)	727,117	(793,129)
Cash flows—Financing activities:	—					
Net repayments under lines of credit	—	—	(88,903)	(2,108)	—	(91,011)
Proceeds from long-term debt	1,191,511	92,958	—	—	—	1,284,469
Payment of long-term debt	(161,663)	—	(189,997)	(6,828)	—	(358,488)
Payment of prepaid financing fees	(41,663)	(4,811)	—	—	—	(46,474)
Other direct costs of long-term debt repayment	—	—	(1,013)	—	—	(1,013)
Net proceeds from stock option activity	615	—	—	—	—	615
Cash dividends paid	—	—	26,940	(26,940)	—	—
Proceeds from issuance of stock	(19,223)	—	(79,377)	604,353	(505,753)	—
Net cash flows provided (used) by financing activities	969,577	88,147	(332,350)	568,477	(505,753)	788,098
Effect of exchange rate changes	—	(30)	—	(1,492)	—	(1,522)
Net change in cash and cash equivalents	—	—	(889)	20,273	(7,506)	11,878
Cash and cash equivalents at beginning of year	—	—	889	29,966	(392)	30,463
Cash and cash equivalents at end of year	$ —	$ —	$ —	$ 50,239	$ (7,898)	$ 42,341

NOTE 19: UNAUDITED QUARTERLY FINANCIAL DATA

The following presents a summary of the Company's unaudited quarterly financial data:

	2002(a)				2001(b)				2000(c)			
Quarter	4th	3rd	2nd	1st	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Amounts in millions, except per share data)											
Net sales	**$ 624.8**	**$ 586.7**	**$ 592.7**	**$ 447.0**	$ 539.3	$ 469.6	$ 464.6	$ 444.0	$ 541.7	$ 412.1	$ 299.2	$ 285.3
Gross profit	**185.9**	**175.5**	**182.0**	**142.0**	169.0	152.3	155.7	137.6	174.4	130.1	103.2	99.2
Earnings (loss) before extraordinary items	**17.1**	**9.8**	**20.7**	**12.7**	16.5	5.8	2.6	(8.5)	1.7	(10.9)	12.6	11.9
Net earnings (loss)	**16.6**	**9.3**	**14.3**	**12.7**	(1.4)	5.8	2.6	(8.5)	1.7	(13.0)	12.6	11.9
Earnings (loss) per share before extraordinary items (basic)	**0.31**	**0.18**	**0.40**	**0.28**	0.39	0.15	0.07	(0.22)	0.05	(0.29)	0.33	0.31
Earnings (loss) per share before extraordinary items (diluted)	**0.31**	**0.18**	**0.39**	**0.28**	0.39	0.15	0.07	(0.22)	0.05	(0.29)	0.33	0.31
Earnings (loss) per share (basic)	**0.30**	**0.17**	**0.28**	**0.28**	(0.03)	0.15	0.07	(0.22)	0.05	(0.34)	0.33	0.31
Earnings (loss) per share (diluted)	**0.30**	**0.17**	**0.27**	**0.28**	(0.03)	0.15	0.07	(0.22)	0.05	(0.34)	0.33	0.31

(a) Net earnings in 2002 include IFC integration expense of $16.2 million, restructuring expense of $4.3 million, a $5.2 million purchase accounting adjustment associated with the required write-up and subsequent sale of acquired inventory, and an extraordinary item of $7.4 million net of tax, resulting in a reduction of net earnings of $24.3 million.

(b) Net earnings in 2001 include IDP integration expense of $63.0 million, a reduction of Flowserve restructuring expense of $1.2 million, and an extraordinary item of $17.9 million net of tax, resulting in a reduction of net earnings of $57.3 million.

(c) Net earnings in 2000 include IDP integration expense of $35.2 million, IDP restructuring expense of $19.4 million, and extraordinary items of $2.1 million net of tax, resulting in a reduction of net earnings of $37.8 million.

FIVE-YEAR SELECTED FINANCIAL DATA

	Year ending December 31,				
	2002(a)	2001(b)	2000(c)	1999(d)	1998(e)
	(Amounts in thousands, except per share data and ratios)				
RESULTS OF OPERATIONS					
Sales	**$ 2,251,331**	$ 1,917,507	$ 1,538,293	$ 1,061,272	$ 1,083,086
Gross profit	**685,531**	614,552	506,912	363,344	415,333
Selling, general and administrative expense	**476,923**	410,563	360,306	301,529	291,928
Restructuring expense	**4,347**	(1,208)	19,364	15,860	—
Integration expense	**16,179**	63,043	35,211	14,207	38,326
Operating income	**188,082**	142,154	92,031	31,748	85,079
Net interest expense	**92,933**	118,072	70,321	14,677	11,378
Earnings before income taxes	**92,070**	25,629	23,184	18,245	73,157
Provision for income taxes	**31,674**	9,275	7,876	6,068	25,502
Earnings before extraordinary items and cumulative effect of change in accounting principle	**60,396**	16,354	15,308	12,177	47,655
Cumulative effect of change in accounting principle	**—**	—	—	—	(1,220)
Extraordinary items, net of income taxes	**(7,371)**	(17,851)	(2,067)	—	—
Net earnings (loss)	**53,025**	(1,497)	13,241	12,177	48,875
Average shares outstanding	**52,193**	39,330	37,842	37,856	39,898
Net earnings (loss) per share (diluted)	**$ 1.02**	$ (0.04)	$ 0.35	$ 0.32	$ 1.23
Cash flows from operations	**248,867**	(47,929)	18,431	84,115	54,104
Dividends paid per share	**—**	—	—	0.56	0.56
Bookings	**2,184,074**	1,975,536	1,521,561	1,039,262	1,082,484
Ending backlog	**733,662**	662,803	659,250	270,647	291,082

PERFORMANCE RATIOS (AS A PERCENT OF SALES)					
Gross profit margin	**30.5%**	32.0%	33.0%	34.2%	38.3%
Selling, general and administrative expense	**21.2%**	21.4%	23.4%	28.4%	26.9%
Operating income	**8.4%**	7.4%	6.0%	3.0%	7.9%
Net earnings	**2.4%**	—	0.9%	1.1%	4.5%
FINANCIAL CONDITION					
Working capital	**$ 539,022**	$ 481,368	$ 464,035	$ 258,128	$ 268,164
Net property, plant and equipment	**464,448**	362,388	405,412	209,976	209,032
Intangibles and other assets	**1,112,185**	791,448	806,679	174,387	173,875
Total assets	**2,607,665**	2,051,975	2,110,143	838,151	870,197
Capital expenditures	**30,875**	35,225	27,819	40,535	38,249
Depreciation and amortization	**65,313**	73,855	57,037	39,599	39,299
Total debt	**1,094,358**	1,040,745	1,129,206	201,135	200,685
Retirement benefits and other liabilities	**304,217**	227,963	260,107	136,207	120,015
Shareholders' equity	**755,690**	411,019	304,911	308,274	344,764
FINANCIAL RATIOS					
Return on average shareholders' equity	**8.5%**	(0.5)%	4.4%	3.6%	13.1%
Return on average net assets	**5.7%**	5.5%	3.6%	4.9%	13.5%
Net debt to capital ratio	**58.0%**	71.3%	78.1%	35.7%	34.2%
Current ratio	**2.1**	2.2	2.1	2.3	2.2
Interest coverage ratio	**2.6**	1.7	2.0	4.3	9.5

(a) Financial results in 2002 include IFC results from the date of acquisition. Financial results in 2002 include integration expense of $16,179, restructuring expense of $4,347, an extraordinary item of $7,371 net of tax, and a $5,240 purchase accounting adjustment associated with the required write-up and subsequent sale of acquired inventory, resulting in a reduction in after tax net earnings of $24,273.

(b) Financial results in 2001 include integration expense of $63,043, a reduction of Flowserve restructuring expense of $1,208 and an extraordinary item of $17,851 net of tax, resulting in a reduction in after tax net earnings of $57,307.

(c) Financial results in 2000 include Invatec and IDP from the date of the respective acquisitions. Financial results in 2000 include integration expense of $35,211, restructuring expense of $19,364 and an extraordinary item of $2,067 net of tax, resulting in a reduction in after tax net earnings of $37,752.

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

(e) Financial results in 1998 include integration expense of $38,326, an obligation under an executive employment agreement of $3,803 (included in selling and administrative expense) and, except for operating income, the benefit of the cumulative effect of an accounting change of $1,220, resulting in a reduction in net earnings of $26,062.

CORPORATE HEADQUARTERS

222 W. Las Colinas Blvd., Suite 1500
Irving, Texas 75039-5421
Telephone 972.443.6500
Facsimile 972.443.6800

TRANSFER AGENT

For stock and legal transfers, changes of address, lost stock certificates, elimination of duplicate mailings of shareholder information or general inquiries about stock ownership, contact:

National City Bank, Dept. 5352
Corporate Trust Operations
P.O. Box 92301
Cleveland, Ohio 44193-0900
Telephone 800.622.6757

ANNUAL MEETINGS

The 2003 Annual Meeting of Shareholders will be held at 11:00 a.m. Pacific Standard Time on Thursday, April 17, 2003, at The Four Seasons Hotel, Ballroom Foyer, 300 South Doheny Drive, Los Angeles, CA 90048.

STOCK EXCHANGE LISTING

Flowserve Corporation common stock is listed on the New York Stock Exchange and traded under the symbol FLS.

The Company's record show that at March 3, 2003, approximately 55,231,538 shares of Flowserve common stock were outstanding. Based on these records, plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 12,450 shareholders of its common stock.

COMPOSITE TRADES

Year/Quarter	(Intraday Prices) High	Low	(Closing) Year-end	Cash Dividends Declared
2003				
First				
03/03/03	15.43	10.95		—
2002				
First	32.01	23.01		—
Second	34.90	29.01		—
Third	28.15	8.70		—
Fourth	15.39	7.90	14.79	—
2001				
First	24.35	19.22		—
Second	33.30	20.76		—
Third	31.15	18.90		—
Fourth	27.02	18.70	26.61	—

AVAILABILITY OF FORMS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

Shareholders may obtain, without charge, copies of the following documents as filed with the Securities and Exchange Commission:

- Annual Report on Form 10-K
- Quarterly Reports on Form 10-Q
- Current Reports on Form 8-K
- Changes in Beneficial Ownership
- Proxy Statements

Copies may be obtained by accessing the Company's website or by providing a written request for such copies or additional information about Flowserve's operating or financial performance to:

Michael E. Conley
Director, Investor Relations
Flowserve Corporation
222 W. Las Colinas Blvd., Suite 1500
Irving, Texas 75039-5421
972.443.6500

To obtain additional information on Flowserve, please visit the Company's website at *www.flowserve.com*

FIRMS PROVIDING EQUITY RESEARCH COVERAGE ON FLOWSERVE INCLUDE:

Bear Stearns
Credit Suisse First Boston
Morgan Stanley
Robert W. Baird
SunTrust Robinson Humphrey
Wachovia Securities

FLOWSERVE

www.flowserve.com

Flowserve makes available, free of charge on or through its website, its periodic reports on 10-K and 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after those reports are filed with the SEC.

FLOWSERVE

FLOWSERVE CORPORATION

222 W. Las Colinas Blvd., Suite 1500
Irving, Texas 75039-5421

QuickLinks

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EXHIBIT 14.1

Flowserve Financial Management Code of Ethics

In my role as a financial manager at Flowserve Corporation, I certify to you that I adhere to and advocate the following principles and responsibilities governing my professional and ethical conduct.

To the best of my knowledge and ability:

1. I act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.

2. I provide constituents with information that is accurate, complete, objective, relevant, timely and understandable.

3. I comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.

4. I act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing my independent judgment to be subordinated.

5. I respect the confidentiality of information acquired in the course of my work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of my work is not used for personal advantage.

6. I share knowledge and maintain skills important and relevant to my constituents' needs.

7. I proactively promote ethical behavior as a responsible partner among peers in my work environment.

8. I achieve responsible use of and control over all assets and resources employed or entrusted to me.

(Signature)

(Name—printed)

(Title)

(Location)

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Exhibit 21.1

Flowserve Corporation
List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation	Percentage Owned
Flowserve Argentina S.A.	Argentina	100%
Flowserve Australia Pty. Ltd.	Australia	100%
Flowserve (Austria) G.m.b.H	Austria	100%
ARS N.V.	Belgium	100%
ARS Loheren N.V.	Belgium	100%
Flowserve Flow Control Benelux S.A.	Belgium	100%
Flowserve FSD N.V.	Belgium	100%
Flowserve RED S.A.	Belgium	100%
Flowserve SRD N. V.	Belgium	100%
Flowserve Ltda do Brazil	Brazil	100%
Worcester Controls do Brasil Ltda.	Brazil	100%
Flowserve do Brasil Ltda.	Brazil	100%
Valtek Registros Ltda.	Brazil	100%
Flowserve Nova Scotia Holding Corp.	Canada	100%
Flowserve Canada Holding Corp.	Canada	100%
Flowserve Canada Ltd. Partnership	Canada	100%
Flowserve Canada Corp.	Canada	100%
Flowserve Chile S.A.	Chile	100%
Flowserve Shanghai Limited	China	100%
Flowserve Colombia S.A.	Colombia	100%
Flowserve Europe Holding ApS	Denmark	100%
Flowserve Finance ApS	Denmark	100%
Flowserve Finland OY	Finland	100%
Naval OY	Finland	100%
Flowserve France S.A.S.	France	100%
Flowserve S.A.S.	France	100%
Flowserve Sales International S.A.S.	France	100%
Flowserve Pleuger S.A.S.	France	100%
Flowserve Pompes S.A.S.	France	100%
Flowserve Flow Control S.A.S.	France	100%
Flowserve Polyvalves S.A.S.	France	100%
Worcester Controls France SARL	France	100%
Flowserve Ahaus GmbH	Germany	100%
Flowserve Essen GmbH	Germany	100%
Flowserve Dortmund Verwaltungs GmbH	Germany	100%
Flowserve Dortmund GmbH & Co. KG	Germany	100%
Deutsche Ingersoll-Dresser Pumpen GmbH	Germany	100%
IDP Pumpen GmbH	Germany	100%
Ingersoll-Dresser Pumpen GmbH	Germany	100%
IPSCO GmbH	Germany	100%
Pleuger Worthington GmbH	Germany	100%
Flowserve Flow Control GmbH	Germany	100%
Gestra GmbH	Germany	100%
PMV GmbH	Germany	100%
Argus GmbH	Germany	100%
Flowserve Microfinish Pumps Pvt. Ltd.	India	76%
Flowserve India Controls Pvt. Ltd.	India	100%

Flowserve Microfinish Valves Pvt. Ltd.	India	76%
Audco India Ltd.	India	50%
PT Flowserve	Indonesia	75%
Flowserve S.p.A.	Italy	100%
Ingersoll-Dresser Pumps S.p.A.	Italy	100%
Worthington S.p.A.	Italy	100%

Flowserve Japan K.K.	Japan	100%
Niigata Worthington Company Ltd.	Japan	50%
Niigata Equipment Maintenance Company Ltd.	Japan	100%
Flowserve SAAG Sdn. Bhd.	Malaysia	70%
Flowserve (Mauritius) Corporation	Mauritius	100%
Flowserve S.A. de C.V.	Mexico	100%
Flowserve B.V.	Netherlands	100%
Flowserve Repair & Services B.V.	Netherlands	100%
Flowserve International B.V.	Netherlands	100%
Flowserve Global Lending B.V.	Netherlands	100%
Flowserve Finance B.V.	Netherlands	100%
Invensys Flow Control Benelux B.V.	Netherlands	100%
Fabromatic B.V.	Netherlands	100%
Flowserve New Zealand Limited	New Zealand	100%
Gestra Polonia SP Zoo	Poland	100%
Flowserve Portuguesa, Mecanismos de Controlo de Fluxos, Lda	Portugal	100%
Flowserve Abahsain Co. Ltd.	Saudi Arabia	60%
Flowserve Pte. Ltd.	Singapore	100%
Flowserve Flow Control Ptd. Ltd.	Singapore	100%
Limitorque Asia Pte. Ltd.	Singapore	100%
Flowserve South Africa (Proprietary) Limited	South Africa	100%
Flowserve Spain S.A.	Spain	100%
Flowserve, S.A.	Spain	100%
Gestra Espanola S.A.	Spain	100%
Flowserve Sweden AB	Sweden	100%
NAF Industries AB	Sweden	100%
Palmstierna International AB	Sweden	100%
Palmstiernas Svenska AB	Sweden	100%
Palmstiernas Instrument AB	Sweden	100%
Flowserve S.A.	Switzerland	100%
Ingersoll-Dresser Pump AG	Switzerland	100%
Ingersoll-Dresser Pump Services Sarl	Switzerland	100%
Ingersoll-Dresser Pump S.A.	Switzerland	100%
Flowserve International S.A.	Switzerland	100%
Flowserve (Thailand) Ltd.	Thailand	100%
Flowserve International Limited	United Kingdom	100%
Flowserve Limited	United Kingdom	100%
Flowserve Pumps Ltd.	United Kingdom	100%
Flowserve Flow Control (UK)	United Kingdom	100%
IPSCO U.K. Limited	United Kingdom	100%

Flowserve UK Finance Ltd.	United Kingdom	100%
Flowserve Flow Control Ltd.	United Kingdom	100%
Audco Ltd.	United Kingdom	100%
PMV Controls Ltd.	United Kingdom	100%
Flowserve International, Inc.	U.S.—Delaware	100%
Flowserve US Inc.	U.S.—Delaware	100%
Flowserve Holdings, Inc.	U.S.—Delaware	100%
Flowserve Management Company (Business Trust)	U.S.—Delaware	100%
BW/IP New Mexico, Inc.	U.S.—Delaware	100%
CFM—V.R. Tesco Inc.	U.S.—Delaware	100%
PMV Inc.	U.S.—Delaware	100%
Flowcom Insurance Company, Inc.	U.S.—Hawaii	100%
Flowserve de Venezuela S.A.	Venezuela	100%
Hot Tapping & Plugging C.A.	Venezuela	100%

QuickLinks

Exhibit 21.1

Flowserve Corporation List of Subsidiaries

QuickLinks -- Click here to rapidly navigate through this document

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

FLOWSERVE CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.
☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Irving, Texas 75039
March 14, 2003

NOTICE OF 2003 ANNUAL MEETING
OF SHAREHOLDERS

Flowserve's Annual Meeting of Shareholders will be held on Thursday, April 17, 2003, at 11:00 a.m. We are holding the meeting at the Four Seasons Hotel, Ballroom Foyer, 300 South Doheny Drive, Los Angeles, California. If you owned Flowserve common stock at the close of business on March 3, 2003, you may vote at this meeting.

At the meeting we plan to:

- elect three directors to each serve a three-year term and one director to serve a one-year term, and

- attend to other business properly presented at the meeting.

This booklet includes the notice of annual meeting and the proxy statement. The proxy statement contains information you should consider when you vote your shares. The Board is not aware of any other proposals for the annual meeting.

Your vote is important. Whether or not you plan to attend the meeting in person, we hope that you will vote. We ask you to vote by completing and mailing the proxy card in the enclosed envelope.

On behalf of Flowserve's Board of Directors,

Ronald F. Shuff
Vice President, Secretary and General Counsel

FLOWSERVE CORPORATION
PROXY STATEMENT

THE ANNUAL MEETING AND VOTING

This proxy statement and proxy card contain information about the election of directors you will vote on at the annual meeting.

Who May Vote and Number of Votes

If you are a shareholder of record at the close of business on March 3, 2003, you can vote. You have one vote for each share you own.

How to Vote

You may vote in person by attending the meeting or by completing and returning a proxy by mail. To vote your proxy, mark your vote on the enclosed proxy card; then follow the instructions on the card. Your shares will then be voted according to your directions. If you do not mark any selections, your shares will be voted as recommended by the Board of Directors (the "Board"). Whether you plan to attend the meeting or not, we encourage you to vote by proxy as soon as possible.

Changing Your Vote

You can revoke your proxy before the time of the meeting by:

- mailing in a revised proxy dated later than the prior proxy submitted, or

- notifying the Corporate Secretary in writing that you are revoking your proxy.

You may also revoke your proxy by voting in person at the meeting.

A Quorum for the Meeting

A majority of the outstanding shares, present or represented by proxy, is a quorum. A quorum is necessary to conduct business at the annual meeting. You are part of the quorum if you have voted by proxy. Votes withheld from director nominees count at the meeting for purposes of determining a quorum.

Under the laws of New York, Flowserve Corporation's (the "Company") state of incorporation, only "votes cast" count in the voting results. Withheld votes will not be considered "votes cast." Directors are elected by a plurality of votes cast.

At the close of business on March 3, 2003, the record date for the meeting, the Company had 55,231,538 shares of common stock which may be voted.

Cost of Proxy Solicitation

The Company pays the cost of soliciting proxies. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for sending proxy materials to shareholders and obtaining their votes.

Shareholder Director Nominations

If you are a shareholder entitled to vote at an annual meeting, you may nominate one or more persons for election as directors of the Company at that meeting. You may do this by sending a written notice to: Corporate Secretary, Flowserve Corporation, 222 West Las Colinas Boulevard, Suite 1500, Irving, TX 75039. The notice must include certain information about the persons you nominate. Generally, we must receive your notice not less than 50 days before the annual meeting date. However, if fewer than 60 days' notice of the meeting date is given to shareholders, we must receive your notice no later than the 10 th day following this notice. The proposed nomination will be referred to the Corporate Governance & Nominating Committee of the Board for further consideration. For complete details, contact the Corporate Secretary.

Shareholder Proposals

The Company plans to hold its next annual meeting on April 15, 2004. You must submit shareholder proposals in writing by November 17, 2003, for them to be considered for the 2004 proxy statement. Please address all shareholder proposals to the Corporate Secretary of the Company at the address noted above.

Voting by Participants in the Flowserve Corporation Retirement Savings Plan

If you are a participant in the Flowserve Corporation Retirement Savings Plan, the proxy card serves as a voting instruction to the trustee for the Plan. This card indicates the number of shares of common stock credited to your account under the Retirement Savings Plan as of March 3, 2003, the record date for voting at the meeting.

- If you sign and return the card on time, the trustee will vote the shares as you have directed.

- If you do not return the card, the trustee will vote your shares in the same proportion as the shares voted by participants who return their cards to the trustee.

Vote Calculations

Votes are counted by employees of National City Bank, the Company's independent transfer agent and registrar. National City Bank is the inspector of elections.

BOARD OF DIRECTORS

Committees and Meetings of the Board

The Board of Directors considers all major decisions of the Company. The Board met seven times in 2002. All directors attended at least 75% of the meetings of the Board and committees on which they served. Only independent directors are eligible to serve on Board committees.

The Board maintained the following committees in 2002:

Audit/Finance Committee

The Audit/Finance Committee advises the Board on strategic financial matters, including making recommendations on acquisitions, divestitures, major financing, pension fund performance, capital structure and risk management. The committee directly engages the Company's independent auditors; preapproves the scope of the annual external audit; and during the fourth quarter of 2002, began the preapproval process for all non-audit services to be provided by the independent auditor. The committee further approves and directly reviews the results of the internal audit plan. The committee also meets with management and the independent auditors to review the quality and integrity of the annual and quarterly financial statements. The committee considers the reports and recommendations of the independent internal and external auditors pertaining to audit results, accounting practices, policies and procedures, and overall internal controls. The committee approves major capital expenditures made in the ordinary course of business. The committee meets periodically with the external and internal auditors in executive session to discuss their reports on a confidential basis. In addition, this committee prepares and issues the report of the Audit/Finance Committee located on page 16 of this proxy statement. The committee met 11 times in 2002. Its charter is attached as Exhibit A.

Compensation Committee

The Compensation Committee is responsible for establishing executive compensation for officers and key management personnel. This is done by the committee in a manner that is internally equitable, externally competitive and an incentive for effective performance in the best interests of shareholders. The committee has the authority of the Board to set the compensation of officers, including the Chief Executive Officer, who are elected by the Board. The committee is responsible for reviewing the management succession plan and for recommending changes in director compensation to the Board. In addition, this committee prepares and issues the report of the Compensation Committee on executive compensation beginning on page 13 of this proxy statement. The committee met four times in 2002. The committee's charter is attached as Exhibit B.

Corporate Governance & Nominating Committee

The Corporate Governance & Nominating Committee makes recommendations to the Board for the positions of Chairman of the Board, President, Chief Executive Officer and candidates for director. The committee also leads the annual CEO performance review conducted by the Board. The committee also reviews and makes recommendations to the Board on self-governance matters related to the Board. This committee met three times in 2002. Its charter is attached as Exhibit C.

BOARD SELF-GOVERNANCE GUIDELINES

In addition to the corporate governance duties noted for each committee above, the Board has adopted internal self-governance guidelines designed to promote superior management of the Company. The guidelines stipulate that the director recruiting process and the composition of Board committees shall be subject to the charter of the Corporate Governance & Nominating Committee. They also cover the formal process for Board review and evaluation of the Chief Executive Officer, individual directors and full Board performance. The guidelines establish requirements for director stock ownership. The guidelines further call for directors to own common stock with a value of at least $100,000 by the end of his or her fifth year of service on the Board.

Finally, these guidelines require a director to offer his or her resignation when such director's principal occupation has changed during a term of office. Under such circumstances, the Corporate Governance & Nominating Committee will review whether it would be appropriate for the director to continue serving on the Board.

A copy of the Board's Self-Governance Guidelines is attached to this proxy statement as Exhibit D.

DIRECTORS' COMPENSATION

Non-employee directors receive an annual retainer with a total target value of $45,000 per year. The cash portion of this retainer is $25,000. The remaining portion is paid in the form of restricted stock (or equivalent cash-based restricted stock units) with a grant date valuation equal to $20,000. Dividend and voting rights accompany any such restricted stock which vests after one year. Directors also receive an annual stock option grant at fair market value covering 1,500 shares of common stock. Committee chairmen receive an additional annual retainer of $2,500 and an additional option grant of 200 shares. All non-employee directors are also eligible to receive $500 for attendance at any special Board meeting requiring travel and $1,000 for any committee meetings held other than in conjunction with a regular Board meeting.

Directors may elect to defer all or part of this compensation. Interest is paid on cash deferrals. For directors electing to defer the cash retainer in the form of Company stock, the deferral is increased by 15%.

ELECTION OF DIRECTORS

The Company's Board of Directors has 10 members who are divided into three classes. Directors are elected for three-year terms. The terms for members of each class end in successive years.

The Board has nominated three members of the class of directors, whose terms of office are expiring, to each serve for a new three-year term that will end in 2006. The nominees are Mr. C. Scott Greer, Ms. Diane C. Harris and Mr. James O. Rollans. The Board has also nominated Mr. Christopher A. Bartlett for election to serve a one-year term expiring in 2004.

The individuals named as proxies on the enclosed proxy card will vote your proxy for the election of these nominees unless you withhold authority to vote for any one or more of them. If any director is unable to stand for election, the Board may reduce the number of directors or choose a substitute.

NOMINEES TO SERVE FOR A THREE-YEAR TERM EXPIRING IN 2006

C. Scott Greer

Age:	52
Director since:	1999
Principal occupation:	President of the Company since 1999, Chief Executive Officer and Chairman of the Board since 2000.
Recent business experience:	Before joining the Company, Mr. Greer was President of UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components, from 1997 to 1999. He was President and a director of Echlin, Inc., an automotive parts supplier, from 1990 to 1997, and its Chief Operating Officer from 1994 to 1997.
Other directorships:	FMC Corporation, a chemical manufacturing company; Washington Group International, an engineering and construction firm; and E-Medical Files, a private start-up company.

Diane C. Harris

Age:	60
Director since:	1993
Board committees:	Audit/Finance Committee (Chairman) and Corporate Governance & Nominating Committee
Principal occupation:	President of Hypotenuse Enterprises, Inc., a merger and acquisition service and corporate development outsourcing company.
Recent business experience:	Ms. Harris was Vice President, Corporate Development, of Bausch & Lomb, an optics and health care products company, from 1981 to 1996, when she left to lead Hypotenuse Enterprises, Inc. She was a director of the Association for Corporate Growth from 1993 to 1998 and its elected President from 1997 to 1998.
Other directorships:	The Monroe Fund, an investment company.

James O. Rollans

Age:	60
Director since:	1997
Board committee:	Audit/Finance Committee

Principal occupation:	Advisor to and former Group Executive, Fluor Corporation, a major engineering and construction firm.
Recent business experience:	Mr. Rollans was President and Chief Executive Officer of Fluor Signature Services, a subsidiary of Fluor Corporation from 1999 to 2001. He was Senior Vice President of Fluor from 1992 to 1999. He was also its Chief Financial Officer from 1998 to 1999 and from 1992 to 1994, Chief Administrative Officer from 1994 to 1998 and Vice President, Corporate Communications, from 1982 to 1992.
Other directorships:	Cupertino Electric, an electrical contractor, and Advanced Medical Optics, Inc., a developer and manufacturer of ophthalmic surgical and contact lens care products.

NOMINEE TO SERVE FOR A ONE-YEAR TERM EXPIRING IN 2004

Christopher A. Bartlett

Age:	59
Director since:	December 2002
Principal occupation:	Professor of Business Administration at Harvard University.
Recent business experience:	Prior to his academic career, Dr. Bartlett was a general manager of Baxter Travenol's French subsidiary and a consultant at McKinsey & Co. Currently he serves as a management consultant on international strategic and organization issues to several major corporations.
Other directorships:	Director of ResMed, Inc., a medical equipment company. Former director of the Company from 1988 to 1993.

DIRECTORS WHOSE TERMS EXPIRE IN 2005

Michael F. Johnston

Age:	55
Director since:	1997
Board committee:	Compensation Committee
Principal occupation:	President and Chief Operating Officer of Visteon Corporation, a supplier of automotive components and systems, since 2000.
Recent business experience:	Before joining Visteon, Mr. Johnston was employed by Johnson Controls, Inc., a company serving the automotive and building services industry, as President of North America/Asia Pacific, Automotive Systems Group, from 1999 to 2000, President of Americas Automotive Group from 1997 to 1999, Vice President and General Manager of ASG Interior Systems Business during 1997, Vice President and General Manager of the Johnson Controls Battery Group from 1993 to 1997, and Vice President and General Manager of SLI Battery Division from 1991 to 1993.
Other directorships:	Visteon Corporation.

Charles M. Rampacek

Age:	59

Director since:	1998
Board committee:	Audit/Finance Committee
Principal occupation:	Chairman of the Board of Probex Corporation, an energy technology company providing proprietary oil recovery services, and its President and Chief Executive Officer since 2000.
Recent business experience:	From 1996 to 2000, Mr. Rampacek served as President and Chief Executive Officer of Lyondell—Citgo Refining LP, a manufacturer of petroleum products. During 1982 to 1995, he held various executive positions with Tenneco Inc and its energy related subsidiaries, including President of Tenneco Gas Transportation Company, Executive Vice President of Tenneco Gas Operations and Senior Vice President of Refining.
Other directorships:	Orion Refining Corporation, a crude oil refinery, and Probex Corporation.

Kevin E. Sheehan

Age:	57
Director since:	1990
Board committees:	Corporate Governance & Nominating Committee (Chairman) and Compensation Committee
Principal occupation:	Managing General Partner of CID Equity Partners, a venture capital firm, concentrating on early-stage and high-growth entrepreneurial companies; partner since January 1994.
Recent business experience:	Before joining CID Equity Partners, Mr. Sheehan was employed by Cummins Engine Company, a manufacturer of diesel engines and related components, for 22 years. He served there as Vice President-Computer Systems and Telecommunications from 1980 to 1983; Vice President-Worldwide Parts and Service from 1983 to 1986; and Vice President-Components Group from 1986 to 1993.

DIRECTORS WHOSE TERMS EXPIRE IN 2004

Hugh K. Coble

Age:	68
Director since:	1994
Board committee:	Compensation Committee
Principal occupation:	Vice Chairman Emeritus of Fluor Corporation, a major engineering and construction firm.
Recent business experience:	Mr. Coble was a director of Fluor Corporation from 1984 and Vice Chairman from 1994 until his retirement in 1997. He joined Fluor Corporation in 1966 and was Group President of Fluor Daniel, Inc., a subsidiary of Fluor Corporation, from 1986 to 1994.
Other directorships:	Beckman Coulter, Inc., a company that sells medical instruments, and Escend Technologies, a software development company.

George T. Haymaker, Jr.

Age:	65

Director since:	1997
Board committees:	Compensation Committee (Chairman) and Corporate Governance & Nominating Committee
Principal occupation:	Non-executive Chairman of the Board of Kaiser Aluminum Corporation, a company that operates in all principal aspects of the aluminum industry, since October 2001. Non-executive Chairman of the Board of Safelite Auto Glass, a provider of automobile replacement glass, since October 2000.
Recent business experience:	Mr. Haymaker was Chairman of the Board of Kaiser Aluminum Corporation from 1994 until May 2001 (non-executive Chairman after January 2000) and its Chief Executive Officer from 1994 to 1999. Before joining Kaiser Aluminum in 1993 as its President and Chief Operating Officer, Mr. Haymaker worked with a private partner in the acquisition and redirection of several metal fabricating companies. He was Executive Vice President of Alumax, Inc. from 1984 to 1986 and was Vice President—International Operations for Alcoa, Inc. from 1982 to 1984.
Other directorships:	CII Carbon, L.L.C., a supplier for aluminum smelters; Mid-America Holdings, Ltd., an aluminum extruder, and 360 Networks Corporation, a provider of telecommunication network services.

William C. Rusnack

Age:	58
Director since:	1997
Board committee:	Audit/Finance Committee
Principal occupation:	Former President, Chief Executive Officer, Chief Operating Officer and a director of Premcor Inc., a company which refines crude oil to manufacture petroleum products, since 1998.
Recent business experience:	Before joining Premcor Inc., Mr. Rusnack served 31 years with Atlantic Richfield Company, or ARCO, an integrated petroleum company, most recently as Senior Vice President of ARCO from 1990 to 1998 and President of ARCO Products Company from 1993 to 1998.
Other directorships:	Sempra Energy, an energy services company, and Peabody Energy, a coal company.

COMPANY STOCK OWNERSHIP

This table shows beneficial ownership of Company common stock by directors and executive officers at March 3, 2003. The named executive officers are the current Chief Executive Officer, Mr. Greer, and the other four current officers who were the highest paid in 2002. No individual director, nominee or executive officer owned more than 1% of the outstanding shares of Company common stock. The total ownership shown for directors and executive officers as a group (including shares that could be purchased by exercise of stock options within 60 days after March 3, 2003) represents approximately 1.7% of outstanding shares. Unless otherwise indicated, voting power and investment power are exercised solely by the named individual or are shared by the individual and his or her family members.

STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

Name	Exercisable Stock Options(1)	Number of Shares Owned(2)(3)
Christopher A. Bartlett	0	4,087
Carlos M. Cardoso	25,000	54,647
Hugh K. Coble	5,000	20,526

C. Scott Greer	233,308	361,508
Diane C. Harris	5,794	25,717
George T. Haymaker, Jr.	5,600	23,702
Renée J. Hornbaker	40,684	76,574
Michael F. Johnston	9,703	23,382
Charles M. Rampacek	5,000	25,334
James O. Rollans	10,991	23,772
William C. Rusnack	14,256	28,381
George A. Shedlarski	97,360	133,133
Kevin E. Sheehan	5,600	29,491
Ronald F. Shuff	43,840	102,960
Directors and executive officers as a group (14 individuals)	502,136	933,214

(1) Represents shares that the directors and officers had a right to acquire within 60 days through the exercise of stock options under a Company stock option plan; these shares are also included in the number of shares owned.

(2) For non-employee directors, the aggregate figures above include shares deferred under the Director Deferral Plan and/or a Flowserve Restricted Stock Plan over which they have no voting power as follows: Mr. Coble: 14,226; Ms. Harris: 16,623; Mr. Haymaker: 12,802; Mr. Johnston: 12,696; Mr. Rampacek: 11,335; Mr. Rollans: 12,085; Mr. Rusnack: 5,325; and Mr. Sheehan: 15,079.

(3) For executive officers, the aggregate figures above include shares deferred under either a Flowserve Restricted Stock Plan or an Executive Compensation Plan over which they have no voting power as follows: Mr. Greer: 66,666; Mr. Cardoso: 12,500; Ms. Hornbaker: 23,352; Mr. Shedlarski: 26,567; and Mr. Shuff: 30,123.

Compliance with Director and Officer Reporting Requirements

Section 16(a) of the Securities and Exchange Act of 1934 requires that directors and executive officers file reports with the SEC regarding their ownership of Company stock and any changes in their ownership. We believe that all of these reports were filed on a timely basis in 2002.

OWNERS OF MORE THAN 5% OF COMPANY STOCK

The following shareholders reported to the Securities and Exchange Commission their ownership of more than 5% of Company common stock. We know of no other shareholder holding 5% or more of Company stock.

Name and Address of Beneficial Owner	Number of Shares Owned	Percent of Company Common Stock(1)
Gabelli Asset Management, Inc. ("Gabelli")(2) One Corporate Center Rye, NY 10580	5,015,225	9.08%
Franklin Resources, Inc. ("FRI")(3) One Franklin Parkway San Mateo, CA 94403 – 1906	3,224,016	5.8%

(1) Based on the number of outstanding shares on March 3, 2003.

(2) Gabelli's report on its Amendment No. 14 to Schedule 13D, dated as of October 11, 2002, included interests owned or controlled by its affiliates. According to the report, Gabelli Funds, LLC had the sole power to vote and dispose of 1,295,000 shares; GAMCO Investors, Inc. had the sole power to vote 3,574,225 shares and sole power to dispose of 3,719,725 shares; and Gabelli & Company, Inc. had the sole power to vote and dispose of 500 shares.

(3) FRI's report on its Schedule 13G, dated as of January 30, 2003, included interests owned or controlled by its affiliates and indicates that FRI, as consolidated with these affiliates, had sole power to vote 1,937,300 shares and sole power to dispose of 3,224,016 shares.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

This table summarizes the compensation for the CEO and the other four executive officers who were the highest paid in 2002.

					Long-Term Compensation(1)			
		Annual Compensation(1)			Awards		Payouts	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation(2)	Restricted Stock Awards(3)	Number of Securities Underlying Options	LTIP Payouts	All Other Compensation(4)
C. Scott Greer	2002	$710,439	$227,000	$ 0	0	55,000	0	$3,330
Chairman of the Board,	2001	662,978	186,000	55,927	0	0	0	2,699
President and Chief	2000	617,490	551,048	0	0	0	0	2,520
Executive Officer(5)								
Carlos M. Cardoso(6)	2002	356,442	0	0	15,000	15,000	0	4,005
Vice President and	2001	226,675	40,000	0	0	8,000	0	620
President, Flowserve	2000	0	0	0	0	0	0	0
Pump Division								
Renée J. Hornbaker	2002	317,769	76,000	0	0	11,000	0	7,497
Vice President and	2001	296,308	62,000	0	0	11,000	0	6,810
Chief Financial Officer	2000	274,953	227,048	0	0	13,100	0	5,866
George A. Shedlarski	2002	357,846	0	0	0	15,000	0	8,203
Vice President and	2001	346,000	73,000	0	0	15,000	0	8,355
President, Flow Control	2000	347,692(7)	201,850	0	0	15,300	0	6,847
Division								
Ronald F. Shuff	2002	262,477	52,000	0	0	9,000	0	6,492
Vice President, Secretary	2001	245,123	43,000	0	0	9,000	0	6,340
and General Counsel	2000	224,338	135,739	0	0	11,700	0	5,604

(1) Salary, annual bonus and long-term payouts may be deferred until retirement. Annual bonus and long-term payouts may also be deferred in the form of Company stock.

(2) Amounts shown include tax adjustment payments on relocation allowances. The only other type of Other Annual Compensation was in the form of perquisites and, except for Mr. Greer in 2001, was less than the level required for reporting. Prerequisites in 2001 for Mr. Greer included $7,500 for financial planning, $32,107 for club dues and $16,320 for a Company-provided auto.

(3) As of December 31, 2002, Mr. Cardoso held 15,000 shares of restricted stock valued at $221,850. The value of the restricted shares is calculated using the December 31, 2002 closing stock price of $14.79 per share multiplied by the number of restricted shares. Mr. Cardoso's restricted shares vest as follows: 7,500 shares vest on July 17, 2007 and the remaining 7,500 shares vest on July 17, 2012.

(4) Company contributions to the 401(k) savings plan for 2002 were: Mr. Greer: $0; Mr. Cardoso: $5,593; Ms. Hornbaker: $5,997; Mr. Shedlarski: $5,593; and Mr. Shuff: $5,492. Company-paid premiums in 2002 for life insurance were: Mr. Greer: $3,330; Mr. Cardoso: $1,005; Ms. Hornbaker: $1,500; Mr. Shedlarski: $2,610; and Mr. Shuff: $1,000.

(5) Upon joining the Company in July 1999, Mr. Greer received an interest-free loan in the amount of $325,738 in payment for the loss of equity in his home upon relocation. If Mr. Greer maintains employment for five years, the loan will be fully forgiven with pro rata forgiveness for lesser periods.

(6) Mr. Cardoso joined the Company on August 13, 2001.

(7) Amount shown excludes special lump sum of $21,000 paid to Mr. Shedlarski for additional responsibilities assumed.

2002 STOCK OPTION GRANTS

Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(4)

Name	Number of Securities Underlying Options Granted(1)(2)(3)	% of Total Options to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	5%	10%
C. Scott Greer	55,000	14.8	$ 24.84	7/17/12	$ 859,196	$ 2,177,371
Renée J. Hornbaker	11,000	3.0	24.84	7/17/12	171,839	435,474
George A. Shedlarski	15,000	4.0	24.84	7/17/12	234,326	593,828
Ronald F. Shuff	9,000	2.4	24.84	7/17/12	140,596	356,297
Carlos M. Cardoso	15,000	4.0	24.84	7/17/12	234,326	593,828

(1) All options have an exercise price equal to the fair market value of Company stock on the date of grant and a 10-year life. They also have certain "limited rights" which, in general, provide for a cash payment of the value of the option in the event of a change in control of the Company.

(2) The figures reported above include incentive option grants for 2002 as follows: Mr. Greer: 4,025; Ms. Hornbaker: 3,689; Mr. Shedlarski: 4,025; and Mr. Shuff: 3,750. All other options granted were non-qualified.

(3) Annual option grants become exercisable on a pro rata basis in three installments commencing on the first anniversary of the grant date, except for Mr. Cardoso. His vesting is contingent upon his acquisition of additional company stock and may not be exercised for at least one year.

(4) The calculation of potential realizable value assumes annual growth rates for each of the grants shown over their 10-year option term and are not suggested to be indicative of projected results. For example, a $24.84 per share price with a 5% annual growth rate results in a stock price of $40.46 per share and a 10% rate results in a price of $64.43 per share. Actual gains, if any, on stock option exercises are dependent on the future performance of the stock.

2002 AGGREGATE OPTION EXERCISES AND YEAR-END OPTION VALUES

This chart shows the number and value of stock options, both exercisable and unexercisable, for the following executive officers.

Name	Shares Acquired on Exercise	Realized Value	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
C. Scott Greer	0	$ 0	233,208	521,692	$ 0	$ 0
Renée J. Hornbaker	50,000(2)	730,465	40,684	22,700	0	0
George A. Shedlarski	0	0	97,360	30,100	0	0
Ronald F. Shuff	25,000(2)	386,656	43,840	18,900	0	0
Carlos M. Cardoso	0	0	25,000	25,000	0	0

(1) The value of unexercised options is presented as the difference between the option exercise price and the 2002 year-end stock price of $14.79 per share, multiplied by the number of option shares; however, there are no unexercised options priced below $14.79.

(2) All shares issued upon exercise were immediately sold.

PENSION PLANS

The Company provides pension benefits to executive officers under the Company's qualified "cash balance" defined benefit pension plan and its non-qualified supplemental executive retirement plans. The supplemental plans provide benefits that plan participants cannot receive under the qualified plan because of Internal Revenue Code limits. Since July 1, 1999, when the Company's pension plan was converted to the cash balance design, participants accrue contribution credits based on age and years of service at the rate of 3% to 7% for qualified earnings up to the Social Security wage base and at the rate of 6% to 12% for qualified earnings in excess of the Social Security wage base. Qualified earnings include salary and annual incentive payments. For executive officers, including the executives listed below, contribution percentages are increased by 5% under provisions of the non-qualified plan. Participants also earn interest on the accrued cash benefit amount in their plan accounts. The following executives (except Messrs. Greer and Cardoso) also received certain transitional benefits in their plan account balances when the Company converted to the cash balance plan. The estimated annual retirement annuities for the following officers at age 65 are:

Executive Officer	Year Reaching Age 65	Age 65 Annual Annuity(1)
C. Scott Greer	2015	$ 654,714
Carlos M. Cardoso	2023	514,164
Renée J. Hornbaker	2017	346,924
George A. Shedlarski	2009	304,204
Ronald F. Shuff	2017	279,395

(1) The estimated annual pension benefits shown assume: (a) annual bonuses for all named executive officers equal to bonus at target; (b) a 7% interest factor; (c) retirement at age 65; and (d) a 5% annual increase in current salary until age 65.

EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

EMPLOYMENT AGREEMENTS

The Company entered into an employment agreement with Mr. Greer as of July 1, 1999, for him to join the Company as President and Chief Operating Officer. Mr. Greer became Chief Executive Officer on January 1, 2000 and Chairman of the Board on April 20, 2000. Mr. Greer's employment agreement includes the following compensation: (i) annual base salary equal to $710,439 for 2002, subject to increase based on annual reviews; (ii) minimum annual bonus opportunity of no less than 75% of base salary and participation in the Long-Term Incentive Plan; (iii) a stock option grant to purchase 700,000 shares of Company common stock and a restricted stock grant of 100,000 shares; and (iv) an interest-free loan of $325,738, forgiven after five year's employment with the Company (or pro rata for shorter periods), in recognition of his willingness to promptly relocate and resulting loss of equity on his prior home.

CHANGE-IN-CONTROL ARRANGEMENTS

The Company maintains an executive severance plan covering key management, officers and executive officers of the Company, providing certain employment termination benefits. These benefits become irrevocable and are paid in the event the covered officer's employment is terminated immediately prior to or within two years after a change-in-control of the Company. They include the following payments: (i) three times the sum of the officer's base salary and the average of target awards under incentive plans; (ii) immediate vesting of non-exercisable stock-based compensation; (iii) continuation of participation in certain employee benefit plans for up to three years; and (iv) full reimbursement for certain potential excise tax liabilities.

REPORT OF THE COMPENSATION COMMITTEE

Committee Membership and Charter

The Compensation Committee of the Board consists of four directors, none of whom is a present or former officer or employee of the Company. The Board-adopted statement of purposes and responsibilities of the Compensation Committee states that the committee is charged with the broad responsibility of seeing that officers and key management personnel are effectively compensated in terms of salaries, supplemental compensation and benefits that are internally equitable and externally competitive.

Committee Compensation Philosophy

Following that charter, and in order to tie compensation directly to performance, the committee has adopted an "incentive-leveraged" compensation policy. This policy offers the Company's officers, including the Chief Executive Officer, the opportunity to supplement their base salaries with substantial cash and stock-based incentives when Company financial objectives are achieved.

Compensation Benchmark Evaluation Process

The committee has established for all officers, including the Chief Executive Officer, a compensation policy which would place the officers' total annual cash compensation (consisting of salary and annual incentive plan awards) at the fiftieth percentile of companies of comparable size, if the Company attains its target financial goals under its incentive plans. In addition, the committee has established total compensation targets, which include long-term incentive targets in addition to annual cash compensation targets, which it believes represent the fiftieth percentile of total compensation for industrial companies of comparable size. The committee established these benchmarks based on data received by the committee from Hay Associates and Hewitt Associates to allow the committee to consider overall executive compensation trends.

Incentive Plans—2002 Overview

In 2002, the Company continued to maintain an annual incentive plan and long-term incentive plan. For 2002, the Company's Chief Executive Officer's target annual and long-term incentives were set, when combined, to be 180% of his individual salary reference rate if all goals were met.

In comparison, the total target combined annual and long-term incentives were set within a band of 95 to 115% of salary for other officers listed in the Summary Compensation Table on page 10.

Incentive Plans—2002 Goals

The committee approved an earnings per share goal and an operating cash flow goal for the 2002 Annual Incentive Plan. This goal was then used to establish an aggregate incentive "award pool" for the Company which is designed to reinforce the direct linkage between corporate performance and officer awards. The committee also authorized the CEO to recommend in 2002 the amount of actual award to be delivered from this pool in 2002 for subsequent committee approval. The committee retained sole direct authority to set the CEO target and approve any CEO award under this Plan. The committee intends to keep this basic plan design in effect for the 2003 Annual Incentive Plan.

The committee decided to change the design of the Long-Term Incentive Plan for the 2001 - 2003 plan cycle. For this cycle, the goals are based on a target of significant annual growth in Company earnings per share. The Long-Term goals in the Plan covering 1999 - 2001 and 2000 - 2002, which are EVA-based (and which thus require the Company to earn "economic value added" over the Company's calculated cost of capital for awards), were unaffected. The Company intends to continue the Long-Term Incentive Plan design implemented in 2001 for the 2002-2004 cycle.

Incentive Plans—2002 Results

For 2002, the CEO and the other named officers received partial Annual Incentive Plan awards as compared to target. The committee's primary rationale for approving the partial 2002 awards was the Company's significant improvement of operating cash flow of almost $300 million in 2002 over 2001 which was used to achieve a key corporate objective of early retirement of a portion of Company debt. The committee also noted, in making this decision, that this significant cash generation improvement occurred despite challenging business conditions in many of the Company's markets.

Despite significantly improved cash flow, the committee authorized no awards under the Long-Term Incentive Plan cycle for the three-year period ending December 31, 2002, since applicable EVA goals under this cycle were not attained.

Stock-based Compensation

Stock Options. With regard to stock options, the committee has adopted a stock option plan administration policy under which options are normally granted annually to officers and selected key employees, as a part of their long-term incentive compensation targets, to better link the objectives of management and shareholders. For 2003, the Company intends to continue the stock option granting program. The committee granted 55,000 shares in stock options to Mr. Greer after considering data from independent consultants regarding competitive corporate practices in this area.

Restricted Stock. Mr. Cardoso received a grant for 15,000 shares of restricted stock in 2002, and he was the only named officer to receive restricted stock in 2002. The committee normally awards these grants only under special circumstances.

Stock Ownership Guidelines

The committee, as part of its review of stock-based compensation, adopted personal stock ownership guidelines for all the Company officers. Officers failing to meet their personal ownership target are subject to partial forfeiture of their eligibility for awards under the annual stock option granting program.

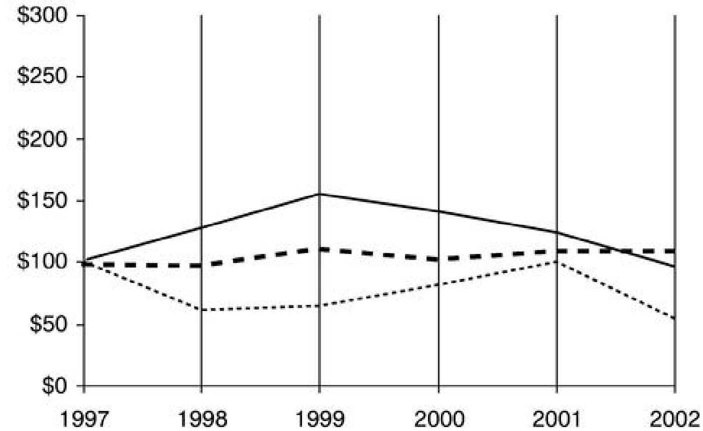
Tax Deductibility of Executive Compensation

The committee has not formally adopted a policy with regard to qualifying executive compensation plans for tax deductibility under Internal Revenue Code Section 162(m). The committee currently believes that the Company should be able to continue to manage the executive compensation program so as to preserve the related federal income tax deductions, although individual exceptions may occur.

George T. Haymaker, Jr. (Chairman)
Hugh K. Coble
Michael F. Johnston
Kevin E. Sheehan

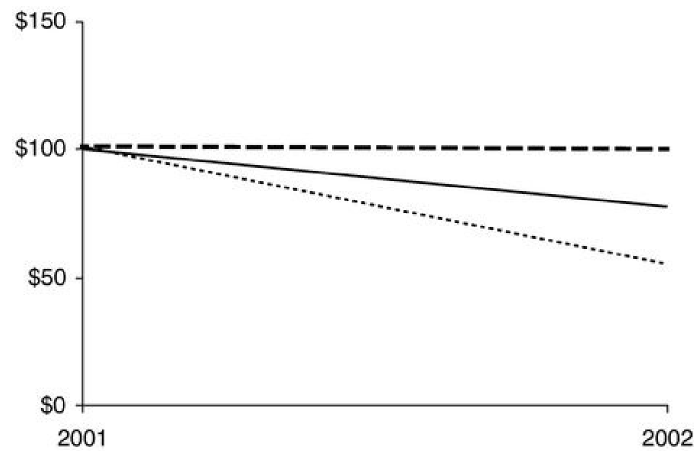
STOCK PERFORMANCE GRAPHS

This graph compares the most recent five-year performance of the Company's common stock with the S&P 500 Index and S&P Machinery (Diversified)—500 Index. It shows an investment of $100 on December 31, 1997, and the reinvestment of any dividends.



Flowserve Corporation	------	$100	$60.74	$64.42	$81.00	$100.83	$56.04
S&P 500 Index	——	$100	$128.58	$155.63	$141.46	$124.65	$97.10
S&P 500 Industrial Machinery	- - -	$100	$95.05	$108.43	$103.22	$109.26	$108.31

This graph compares the 2002 performance of the Company's common stock with the S&P 500 Index and S&P Machinery (Diversified)—500 Index. It shows an investment of $100 on December 31, 2001, and the reinvestment of any dividends.



Flowserve Corporation	-------	$100	$55.58
S&P 500 Index	——	$100	$77.90
S&P 500 Industrial Machinery	- - -	$100	$99.13

REPORT OF THE AUDIT/FINANCE COMMITTEE

The Audit/Finance Committee of the Company's Board is composed of four independent directors. The committee operates under a written charter adopted by the Board of Directors which is attached to this proxy statement as Exhibit A. The committee met 11 times in 2002.

All directors who serve on the committee are "independent" for purposes of the SEC and the New York Stock Exchange listing standards.

The members of the committee are listed at the end of this report. The committee believes that more than one of its members qualifies as an "audit committee financial expert" under SEC regulations which will apply to future Company SEC filings.

Management has primary responsibility for the Company's internal controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report on this audit. The committee's responsibility is to monitor and oversee this process, including the engagement of the independent accountants, the preapproval of their annual audit plan and the review of their annual audit report with related comments.

In this context, the committee has met and held discussions with management on the Company's consolidated financial statements. Management represented to the committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and that these statements fairly present the financial condition and results of operations of the Company for the period described. The committee has relied upon this representation without any independent verification, except for the work of the independent accountants. The committee also discussed these statements with the Company's independent accountants, both with and without management present, and has relied upon their reported opinion on these financial statements.

The committee further discussed, with the independent accountants, matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) and No. 90 (Audit Committee Communications), including the independence of these accountants. During this review, the Company's independent accountants also provided to the committee the written letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The committee has also considered whether the principal accountant's provision of non-audit services was compatible with maintaining the accountant's independence in conducting the annual audit. Towards that end, the committee began its preapproval process for any non-audit fees and services before they are rendered during the fourth quarter of 2002.

Based upon the committee's discussion with management and the independent accountants, and the committee's review of the representation of management and the report of the independent accountants to the committee, the committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Diane C. Harris (Chairman)
William C. Rusnack
James O. Rollans
Charles M. Rampacek

OTHER AUDIT INFORMATION

Relationship with Independent Accountants

PricewaterhouseCoopers LLP ("PwC") began serving as the Company's independent accounting firm in 2000. In this role, PwC audits the financial statements of the Company. The Audit/Finance Committee preapproves the audit fees and services provided by PwC, and during the fourth quarter of 2002, the Company began its preapproval process for all non-audit related fees and services provided by PwC. This committee also reviews any factors that could impact the independence of PwC in conducting the audit and receives certain representations from PwC towards that end.

The chart below summarizes the fees for professional services incurred by the Company for the audits of its 2002 and 2001 financial statements and other fees billed to the Company by PwC in 2002 and 2001. In general, the Company has followed a policy of retaining PwC for additional services which are logically related to or natural extensions of the annual audit.

TYPE OF SERVICE	2002	2001
AUDIT SERVICES	$ 2,519,656	$ 1,842,432
AUDIT RELATED SERVICES		
Benefit Plan Audits	50,700	50,100
Financial Due Diligence	245,281	15,066
TOTAL AUDIT RELATED SERVICE FEES	295,981	65,166
TAX SERVICES	855,756	962,977
OTHER SERVICES	—	275,150

TOTAL FEES	$ 3,671,393	$ 3,145,725

Representatives from PwC will be at the annual meeting to make a statement, if they choose, and will be available to respond to appropriate questions.

EXHIBIT A

AUDIT/FINANCE COMMITTEE

PURPOSE

The Committee shall review and monitor the Company's financial statements, accounting policies, practices and system of internal control to evaluate whether management has proper safeguards over the Company's assets and is issuing timely, accurate and appropriate financial information in accordance with applicable legal and regulatory requirements. The Committee also monitors the Company's compliance with standards of proper business conduct by employees. Additionally, the Committee advises the Board of Directors (the "Board") on all financial matters with the goal of accomplishing the Company's objectives and operating strategies while maintaining sound fiscal health. The Committee is responsible for hiring, compensation and oversight of the independent auditors, plus the Committee assesses the performance of the Company's internal audit function and independent auditors. Finally, the Committee prepares the audit committee report which SEC rules require for the Company's annual proxy statement. In order to ensure the impartial performance of the above functions, no director who is a current or former employee of the Company, or who receives compensation in any capacity other than as a director, or who otherwise, in the opinion of the Board, has a "material relationship" with the Company other than as a director, or who otherwise does not qualify as an independent director under the Board's Self-Governance Guidelines may serve on the Committee. In addition, the Committee must have at least three members. All Committee members must be "financially literate", with at least one being an "audit committee financial expert," as defined in applicable regulations.

POWERS

The Committee has all powers necessary to carry out the purpose and discharge the responsibilities of the Committee. These include the power to directly retain, at Company expense, outside legal, accounting and audit services to execute those responsibilities, without additional approval from the Board, and the power to investigate any matter within the scope of its duties, with full access to books, records, facilities and personnel necessary to do so. The Committee does not have authority to declare dividends or to approve equity offerings; nor does it have the authority to approve, without full Board consent, the terms of borrowings in excess of $15,000,000.

AUDIT/FINANCE COMMITTEE RESPONSIBILITIES INCLUDE:

1. Directly engage, oversee, assess the qualifications and independence of, and if necessary, terminate the independent auditors, including receiving reports from the independent auditors on their compliance with mandatory rotation and related audit work performance eligibility laws applicable to their personnel.

2. Preapprove (except as delegated to the Committee Chairman to the extent allowed by law) all services to be performed by the independent auditors, including approving the itemized fees for both the annual audit and non-audit services and confirmations from the independent auditors that any such non audit services are permitted by law, with a focus on identifying any matters that might affect the scope of the audit or the independence of the auditors. When any such power is delegated to the Committee Chairman, he or she must disclose all determinations to the full Committee as soon as possible after they have been made.

3. Meet at least four times per year, or more often as needed.

4. Obtain the Board's approval of this Charter and reassess this Charter as conditions dictate (at least annually).

5. Preapprove (except as delegated to the Committee Chairman to the extent allowed by law) the scope and timing of the internal and external audit plans.

6. Have a clear understanding with the auditors that they are ultimately accountable to the Committee.

7. Resolve, if applicable, any disagreements between management and the independent auditors regarding financial reporting.

8. Approve the internal audit plan and review the performance and reports for the Committee of the internal auditors, including significant findings of the internal audit staff and the response of management to the findings. Review the coordination of the internal audit function with independent auditors and make inquiries of internal auditors as to any significant accounting exposures and management's responses thereto.

9. Provide an open avenue of communication between the independent and internal auditors and the Board.

10. Meet with the independent auditors and management to:

(a) Review the quality and integrity of the annual financial statements, the quarterly interim financial statements and their results of the annual audit and quarterly reviews (including a review of significant transactions not a normal part of the Company's business, changes in accounting principles and practices, significant proposed adjustments, and the choice of accounting principles).

(b) Review the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the quarterly Form 10-Q and annual Form 10-K filings with the SEC, including any significant unusual disclosures, plus any disclosures in these filings related to the preapproval of non-audit services by the independent auditors.

11. Meet with the independent auditors to:

(a) Review all reports prepared for the Committee by the independent auditors, including statements of critical accounting policies and practices to be used, discussions of alternative treatments of Company financial information within generally accepted accounting principles and other material written communications such as any management letter or schedule of unadjusted differences. Inquire about any significant accounting exposures and management's responses thereto. If necessary, discuss the ramifications of the use of alternative treatments and the treatment preferred by the auditors.

(b) Review the independent auditors' evaluation of:

(i) The quality, adequacy and clarity of the Company's accounting, financial and internal audit policies, procedures and internal controls, and elicit any recommendations for the improvement of such from auditors.

(ii) The impact of new legal and regulatory matters, including pronouncements of the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the New York Stock Exchange, the Securities Exchange Commission and other similar bodies or agencies which could have an effect upon the Company's financial statements or conditions.

(iii) Other significant matters which come to their attention during the course of the audit.

(c) Assess whether the scope of the joint internal/external audit program for the year has been substantially completed, including whether problems were encountered and, if so, what the response of management was.

(d) Assess, if applicable, if any member of management has attempted to exert any improper influence on the independent auditors in the performance of their work.

(e) At least annually, obtain and review a report by the independent auditors describing: the auditing firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one

or more independent audits carried out by the firm, and any steps taken to deal with any such issue.

(f) On an annual basis, obtain from the independent auditors a written communication delineating their relationships and professional services as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. In addition, review with the independent auditors the nature and scope of any disclosed relationships or professional services and take, or recommend that the Board take, appropriate action to ensure the continuing independence of the auditors.

12. Meet separately with management, with internal auditors and with the independent auditors on a periodic basis in carrying out these functions.

13. Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

14. Set clear hiring policies for employees or former employees of independent auditors.

15. Review procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

16. Review the reports and the processes of the CEO and CFO for certifying the Company's financial statements and internal control processes, to the extent required by law, including receiving, if applicable, reports from management, the independent auditors or the internal auditors on any material deficiencies found in the internal controls or incidents of fraud by an employee with a significant role in internal controls.

17. Review the formulation of appropriate standards and policies and review the procedure for compliance with the Antitrust Laws, business conduct policies and the Foreign Corrupt Practices Act. Receive periodic reports from the General Counsel regarding compliance.

18. Review and make recommendations to the Board regarding financial philosophy, policies (such as dividend and capital structure) and strategies.

19. Review key financial implications of acquisitions, divestitures, major new "grass roots" facilities requests, as well as major new product justifications. Recommend actions on such matters to the Board and review post-audit analyses of these matters prepared by management.

20. Review and approve yearly capital appropriations budget and major capital expenditures not otherwise covered above for financial soundness as well as for consistency against the long-term objectives and strategies. Review and approve any Company sales related transactions in excess of $15,000,000 and investment related transactions in excess of $5,000,000. Review post-audit analyses of major capital justifications prepared by management.

21. Review and approve short-term and long-term financing policies and plans and review specific financing practices. Review and approve new or refinanced long-term debt issues not in excess of $15,000,000.

22. Review and recommend for Board approval the terms of offerings of common stock, preferred stock, bonds, long-term leases or other types of equity offerings. Review and recommend for Board approval new or refinanced long-term debt issues in excess of $15,000,000.

23. Review, and where deemed appropriate, recommend for Board approval the limits of management's authority for short-term borrowings.

24. Review periodic reports to determine if management is sensitive to, and the Company is in compliance with, various covenants in debt instruments.

25. Discuss policies with respect to risk assessment and periodically review the Company's risk management programs, including general liability, D&O and other insurance policies, as well as the reserve valuations of balance sheet accounts such as Allowance for Doubtful Accounts.

26. Review foreign currency exposure on a periodic basis and review the financial instruments used to hedge (neutralize) the position both in type of instrument and value.

27. Direct and supervise investigations into matters within the scope of its responsibilities, if deemed necessary.

28. Review management's presentation of financial statements and related materials and evaluate whether the Board receives an objective and adequate flow of information as to matters which lie within the scope of the Committee's responsibilities.

29. Report its findings on the above to the Board on a regular basis, but not less than quarterly.

30. Prepare and review the report of the Audit/Finance Committee in the annual Proxy Statement.

31. Conduct an annual performance review of the Committee.

EXHIBIT B

COMPENSATION COMMITTEE

PURPOSE

The Compensation Committee is charged with the Board responsibility of seeing that the officers and key management personnel of the Company are effectively compensated in terms of salaries, incentive compensation and benefits which are internally equitable and externally competitive. The Committee reviews management succession planning. In order to ensure the impartial performance of the above functions, no director who is a current or former employee of the Company, or who receives compensation from the Company in any capacity other than as a director, who otherwise in the opinion of the Board, has a "material relationship" with the Company other than as a director, or who otherwise does not qualify as an independent director under the Board's Self-Governance Guidelines, may serve on the Committee. The Company shall also prepare an annual report on executive compensation for the Company's annual proxy statement, in accordance with applicable rules and regulation.

POWERS

All powers necessary to carry out the purpose and discharge the responsibilities of the Committee, including the power to fix the compensation of officers. The Committee may elect to directly retain and use, at Company expense and without Board approval, outside legal and consulting firms as deemed necessary or appropriate by the Committee to carry out its designated responsibilities.

COMPENSATION COMMITTEE RESPONSIBILITIES ARE TO:

1. Review the Company's management resources and its executive manpower appraisal, development and selection process including the Company's commitment to diversity. Review management succession plans and monitor development of qualified backup candidates for principal positions in the Company.

2. Review performance and promotability of key executives (all officers and senior executives except the CEO) with the CEO at least annually. Then summarize this review with the Board. (The full Board, under the guidance of the Corporate Governance & Nominating Committee Chairman, will review the CEO's performance). These reviews will normally take place at the February meetings.

3. Review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of these goals and objectives, and set the CEO's compensation based on this evaluation and the full Board's performance review of the CEO.

4. Set annual base compensation and approve incentive compensation for all officers.

5. Administer the Company's stock option plans, restricted stock plan, and incentive compensation plans for key employees, including the delegation of routine or ministerial activities to management.

6. Periodically review the compensation system and structure to evaluate whether the cash compensation, stock-based compensation and benefit plans will attract, hold, and motivate key executives to effectively build shareholder value.

7. Review significant developments in significant corporate benefit plans for employees to evaluate equity, soundness and adequacy.

8. Periodically review the Compensation Program for Directors and recommend appropriate adjustments to the Board of Directors, including evaluating all compensation to be provided to members of the Audit/Finance Committee for compliance to applicable law.

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9. Receive periodic confirmation that no personal loans to officers, or other inappropriate compensation under applicable law, is made.

10. Regularly report to the Board on its activities and decisions.

11. Conduct an annual performance review of the Committee.

12. Produce the annual report on executive compensation for inclusion in the Company's annual proxy statement.

EXHIBIT C

CORPORATE GOVERNANCE & NOMINATING COMMITTEE

PURPOSE

The Corporate Governance & Nominating Committee will provide oversight with respect to Board composition, organization and effectiveness. The Committee also recommends changes in the Board's Self Governance Guidelines to the Board. The Committee serves as the Nominating Committee of the Board, including identifying and recommending qualified candidates for Board membership. The Committee also nominates candidates for each of the individual positions of Chairman, President and CEO. In order to ensure the impartial performance of the above functions, no director who is a current or former employee of the Company, or who receives compensation from the Company in any capacity other than as a director, or who otherwise, in the opinion of the Board, has a "material relationship" with the Company other than as a director, or who otherwise does not qualify as an independent director under the Board's Self-Governance Guidelines, may serve on the Committee.

POWERS

The Committee shall have power to engage and use, at Company expense and without Board approval, such legal and consulting support as the Committee deems necessary to perform its functions, including sole authority to engage search firms to recruit candidates for the individual director, President and CEO positions.

CORPORATE GOVERNANCE & NOMINATING COMMITTEE RESPONSIBILITIES ARE TO:

1. Meet at least once per year to discuss:

a. Composition of and membership on the Board.

b. New director candidates, in the case of a vacancy or a desire to increase the Board size, consistent with the Board's Self Governance Guidelines.

c. Evaluation of the effectiveness of the Board.

2. Select, or recommend that the Board select, director nominees for the next annual shareholders meeting.

3. Review questions regarding Board membership in accordance with Board Self Governance Guidelines.

4. Serve as the Nominating Committee for the individual positions of Chairman of the Board, Director, President and Chief Executive Officer, including recommending candidates for Board approval.

5. Review and approve recommendations by the Board Chairman for committee structure and committee assignments.

6. Annually review, and make recommendations to the Board to update, where applicable, the Board's Self Governance Guidelines.

7. Conduct, under the leadership of the Committee Chairman, the annual CEO review process and oversee the related management review process.

8. Oversee the annual Board self-review process and biannual individual director peer review process.

9. Report regularly to the Board on its activities and decisions.

10. Conduct an annual performance review of the Committee.

EXHIBIT D

FLOWSERVE CORPORATION

BOARD OF DIRECTORS SELF-GOVERNANCE GUIDELINES

Selection of Chairman

1. The Board of Directors (the "Board") is free to select any director that the Board deems best to act as its Chairman. This includes, but is not necessarily, the Chief Executive Officer ("CEO").

Corporate Governance & Nominating Committee

1. The independent directors will select an independent director as Corporate Governance & Nominating Committee Chairman to chair the Corporate Governance & Nominating Committee, to conduct executive sessions of the Board (without inside director participation) and to perform other applicable functions noted in the remainder of these guidelines. The Corporate Governance & Nominating Committee Chairman will normally serve for a three-year term, subject to annual ratification at the February Board meeting.

2. If the Chairman of the Board becomes unavailable to serve for any reason, the Corporate Governance & Nominating Committee Chairman will serve as acting Chairman until the Board formally selects a new Chairman.

Board Meetings

1. The CEO and the Corporate Governance & Nominating Committee Chairman will be responsible for establishing the Board meeting agendas. The Board will meet at least five times per year.

2. Management will normally provide the Board with concise written background information on each agenda item requiring action or discussion at a Board meeting. Management presentations at Board meetings should be concise with time left for the Board to ask questions and to discuss the presented topic. Time should also be provided to discuss strategic issues and actions. Routine matters and formalities should be kept to a minimum.

3. Non-directors may attend Board meetings only with the advance consent of the Chairman.

4. Non management directors will meet at regularly scheduled sessions at Board meetings without management present.

5. The Board should at least annually receive presentations on management's key strategic initiatives and an evaluation of the Company's competitive position.

Size and Composition of the Board

1. The size of the Board will normally be between 9 to 12 members. The higher end of this range should normally be considered when Board member turnover is expected in the near future.

2. A significant majority of the Board will always be independent directors. The only employees eligible to serve as directors of the Company are the CEO and the Chief Operating Officer ("COO"). The Board shall, in the Company's annual proxy statement, disclose those directors deemed independent who have no material relationship with the Company, except as a director. Directors of the Company shall not be deemed independent until five years after they terminate (i) employment with the Company, (ii) service with the Company's independent auditors, and (iii) employment with a company where the Company's CEO or

COO is on the board of directors of the director's own company. Directors who have any immediate family members in the foregoing categories (i)—(iii) above, shall be subject to the same five year "cooling off" period.

Selection of New Directors

1. The Board believes that a board should have a diversity of backgrounds. The Board members should also have varied professional expertise in fields of accounting/finance, engineering, industrial sales, international operations and human resources.

2. All prospective new members must have high ethics, a broad strategic view, articulate leadership, a global perspective and demonstrated successful relevant experience. All Board members must also be able to enthusiastically devote sufficient time to Board service. They also must be able to quickly "get to the heart" of complex issues and to constructively dissent without creating adversarial relationships.

3. A prospective director shall not normally be considered for election to the Board, unless the candidate expresses a clear willingness and availability to serve on the Board for at least six years.

4. The invitation to join the Board will come from the entire Board, after recommendation from the Corporate Governance & Nominating Committee. New director searches shall be based upon parameters established in advance by the Board, with the Corporate Governance & Nominating Committee Chairman approving actual recruiting search arrangements.

5. Any prospective director must not have, and take steps to avoid, any possible conflict of interest with the Company. All prospective directors must have the detached and objective ability to evaluate Company issues in the best interest of shareholders.

6. Board membership is discouraged for attorneys, investment bankers and other suppliers whose firms provide products or services to the Company.

7. New Board members will receive an orientation session with the Company's General Counsel.

Ethics

1. All directors shall sign and follow the Director Code of Ethics. All directors must otherwise avoid even the appearance of impropriety or conflict of interest in performing their duties.

Committee Meetings

1. The Committee Chairman, in consultation with Committee members, determines the frequency and length of Committee meetings. The CEO and the Committee Chairman will agree on a tentative agenda for regularly scheduled Committee meetings at the beginning of a year.

2. Each meeting agenda will be subject to approval of the Committee Chairman, including consultation with the management staff.

3. Committee meetings will be conducted with the same professionalism as Board meetings, including requiring written advance background materials, concise management presentations and an emphasis on strategic matters.

Committees: Structure and Membership

1. The Board will normally have three committees: Audit/Finance, Corporate Governance & Nominating and Compensation. The delegated powers and responsibilities of each will be set by the Board. If desired, the Board reserves

the right to disband or form new committees, including "ad hoc" committees to handle specifically defined assignments.

2. The Chairs of the Compensation and Audit/Finance Committees will normally be rotated among independent directors about every three years.

3. The Corporate Governance & Nominating Committee, in consultation with the CEO and with consideration of the preferences of individual directors, will recommend to the full Board the assignments of individual directors to committees and the appointment of Committee Chairs. Actual assignments will be subject to the full Board's approval at its April meeting, with the Corporate Governance & Nominating Committee recommendation normally being finalized at its February meeting.

4. The Corporate Governance & Nominating Committee will normally be comprised of its Chairman and Committee Chairmen of the Audit/Finance and Compensation Committees.

5. Only independent directors will be eligible to become Committee members.

6. The Board will determine, on a case-by-case basis, whether special compensation will be paid to members of special "ad hoc" committees. No special compensation will normally be paid to directors on any informal, advisory committees supporting the Company.

7. Members of the Audit/Finance Committee may receive director's fees and related director compensation as the only form of compensation from the Company.

8. All members of the Audit/Finance Committee must be "financially literate", and at least one shall be an "audit committee financial expert", as determined by the Board.

Performance Assessment

1. The Corporate Governance & Nominating Committee Chairman shall seek input and recommendations, through interviews with the directors and reviewing the results of the Board's annual self assessment process, on improving Board effectiveness and processes, including discussing any additional skill sets important to the Board. This input will normally be reviewed for updating, as appropriate, at the same time. Feedback and suggested changes to Board processes, if applicable, will normally then be first reviewed by the Corporate Governance & Nominating Committee and then presented to the full Board at its following February meeting. Appropriate follow-up action should be implemented to address areas identified for further attention during the review.

2. The Board will annually evaluate the performance of the CEO in an executive session under the direction of the Chairman of the Corporate Governance & Nominating Committee, with the input from the

Corporate Governance & Nominating Committee members other than the CEO. The evaluation will be based upon objective criteria, focusing upon progress made in enhancing shareholder value. Feedback will be provided to the CEO by the Chairman of the Corporate Governance & Nominating Committee.

3. The Board, under the direction of the Corporate Governance & Nominating Committee Chairman, will periodically assess the performance of individual Board members, but no less than once every three years. Each individual director will receive feedback on his/her individual evaluation.

4. The Board Committees shall annually perform self assessments of their performance. Appropriate follow-up action should be implemented to address areas identified for further attention during the reviews.

CEO/Board Terms of Office

1. Upon retirement as CEO or COO, the CEO or COO shall also then resign from the Board.

2. In order to promote continued vitality and creativity in the CEO position, to provide the meaningful promotion opportunities needed to attract and retain talented next tier executives, and to energize the management development process, the CEO will not normally serve in this office more than 5-9 years. Nothing in this provision in any way affects the function of the Board in conducting an annual performance review of the CEO and in acting upon the results of this review in any way deemed necessary or appropriate by the Board.

3. When a director changes his or her occupational responsibilities during his/her term of office, he/she shall then offer his/her resignation to the Chairman of the Corporate Governance & Nominating Committee who will review the matter with the Corporate Governance & Nominating Committee. If appropriate, a private meeting will be held between the affected director and the Chairman of this Committee to discuss the matter. The Corporate Governance & Nominating Committee will then review whether it would be appropriate for the director to continue on the Board. An affected director who is also a Corporate Governance & Nominating Committee member will not participate in this review.

4. When a director has the opportunity to join the board of directors of another "for profit" company, the director shall first consult with the Corporate Governance & Nominating Committee Chairman. If the Corporate Governance & Nominating Committee Chairman sees any potential conflicts of interest or determines any other concerns, the Chairman shall review the matter with the Corporate Governance & Nominating Committee. The Governance Chairman shall always review any such opportunity with this Committee involving him/herself. This Committee will then review whether it would be appropriate for the director to continue on the Board, if he/she accepts the board seat with the other company. An affected director who is also a Corporate Governance & Nominating Committee member will not participate in this review.

5. A director shall, in any event, retire effective at the first Annual Meeting following the earlier of either (i) his/her 70th birthday or, (ii) his/her completion of twelve full years of Company Board service, unless the director is specifically requested to continue by the Board.

Management Succession

1. The Board should, over the course of a year, have the opportunity to meet with, hear business presentations from, and evaluate the senior management group.

2. The Board should normally hear an annual report by the CEO on management succession planning with an appropriate emphasis on diversity. The Board should be comfortable with the succession planning process and be aware of the CEO's recommendation for his/her successor, should the CEO become suddenly and unexpectedly unable to serve.

Director Stock Ownership

1. A new director should own at least 250 shares of stock within three months of joining the Board or at the time he or she is first proposed in the Company's Proxy Statement for election by shareholders to the Board, whichever occurs first.

2. At least one half of annual director compensation should normally be in the form of common stock of the Company.

3. Any non-employee director should normally own the greater of 150% of his/her

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past annual Board compensation or $60,000 worth of stock by his/her third anniversary of service on the Flowserve Board. The director should also normally own the greater of 250% of his/her past annual

Flowserve Board compensation or $100,000 of Flowserve common stock by his/her fifth anniversary with Flowserve. If the director does not own $100,000 in stock by this fifth anniversary, he/she should then receive all of his/her future Board compensation in Flowserve stock until at least $100,000 benchmark is attained.

Potential Merger & Acquisition Contacts

1. The CEO shall periodically review, as part of leading Board discussions on the Company's strategic direction, companies or businesses which the Company may have interest in acquiring, or otherwise entering into a corporate combination with, in the future.
2. No director shall initiate contact or engage in any discussions with any third parties regarding any such transactions, regardless of size, without prior Board approval. No employee shall initiate contact or engage in any discussions with any third parties regarding any such transactions, regardless of size, without CEO approval.
3. Unsolicited inquiries from any other company or person regarding any such transaction which are deemed to be serious by the CEO shall be promptly reported to the Board.
4. Any inquiry on this topic to a director is considered to be serious and should be immediately reported to the CEO and Board Chairman.

General

1. The Board shall free to engage, at Company expense, such independent legal, financial and other consulting advice as deemed necessary.
2. Directors are encouraged to attend continuing education programs at the expense of the Company. From time to time, the Board may arrange for related presentations to the Board during its regularly scheduled meetings.
3. The foregoing Board Self Governance Guidelines are designed to be guides to excellent practice. The Board must retain the flexibility to focus on the most critical issues facing the Company on a case-by-case basis. Nothing in these guidelines is intended either to supersede any shareholder voting rights, which remain primary in relative priority, or to impose any new legal liabilities on the directors.

DETACH HERE

FLOWSERVE CORPORATION

PROXY FOR ANNUAL SHAREHOLDERS' MEETING—APRIL 17, 2003
SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY

The undersigned hereby appoints **C. SCOTT GREER** and **KEVIN E. SHEEHAN**, and each of them, with full power to act without the other, as proxies with full power of substitution, to represent and to vote on behalf of the undersigned all of the shares of common stock of Flowserve Corporation which the undersigned is entitled in any capacity to vote if personally present at the 2003 Annual Meeting of Shareholders of Flowserve Corporation to be held at 11:00 a.m. on Thursday, April 17, 2003, at the Four Seasons Hotel, Ballroom Foyer, 300 South Doheny Drive, Los Angeles, California, and at any adjournment thereof, upon the election of directors as listed on the reverse side of this proxy and more fully described in the Notice of 2003 Annual Meeting of Shareholders and Proxy Statement, dated March 14, 2003, and upon all matters presented at the Annual Meeting but not known to the Board of Directors at a reasonable time before the solicitation of this proxy.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER(S). IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR.

(Continued, and to be dated and signed, on other side)

DETACH HERE

(Continued from the other side)

1. Election of three directors each for a three-year term.

[ ] **FOR** all nominees listed below *(except as marked to the contrary below)*   [ ] **WITHHOLD AUTHORITY** to vote for all nominees listed below

INSTRUCTION: To withhold authority to vote for any individual nominee, strike a line through the nominee's name below:

C. Scott Greer   Diane C. Harris   James O. Rollans

2. Election of Christopher A. Bartlett as a director for a one-year term.

[ ] **FOR** the nominee listed above   [ ] **WITHHOLD AUTHORITY** to vote for the nominee listed above

Date: ____________________ **, 2003**

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Print Full Name of Shareholder

Signature of Shareholder

Insert Title of Above Signatory if Shareholder is not an Individual
Please sign as name appears above. Executors, administrators, trustees, guardians and others signing in a representative capacity, should indicate the capacity in which they sign. An authorized officer may sign on behalf of a corporation and should indicate the name of the corporation and his or her capacity.

QuickLinks

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-62044) and to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-46234, 333-81707, 333-57773, 333-50667, 033-72372, 333-82081, 333-29541, and 033-62527) of Flowserve Corporation of our report dated February 3, 2003, relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 3, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
March 20, 2003

QuickLinks

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Exhibit 99.1

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

In connection with the Annual Report of Flowserve Corporation (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Scott Greer, Chief Executive Officer of 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:

(1) The 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Scott Greer
C. Scott Greer
Chief Executive Officer

February 21, 2003

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Exhibit 99.2

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

In connection with the Annual Report of Flowserve Corporation (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Renée J. Hornbaker, Chief Financial Officer of 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:

(1) The 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Renée J. Hornbaker
Renée J. Hornbaker
Vice President and Chief Financial Officer

February 21, 2003
