FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For Quarter Ended March 31, 2002 Commission File Number 1-13179

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

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

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

222 W. LAS COLINAS BLVD., SUITE 1500, IRVING, TEXAS	75039
(Address of principal executive offices)	(Zip Code)
(Registrant's telephone number, including area code)	(972) 443-6500

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

YES X NO

SHARES OF COMMON STOCK, $1.25 PAR VALUE, outstanding as of April 30, 2002	55,143,489

FLOWSERVE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2002	2001
Sales	$ 447,050	$ 444,035
Cost of sales	305,015	306,461
Gross profit	142,035	137,574
Selling, general and administrative expense	100,156	100,105
Integration expense	--	19,139
Operating income	41,879	18,330
Net interest expense	21,819	31,810
Other expense (income), net	464	(135)
Earnings (loss) before income taxes	19,596	(13,345)
Provision (benefit) for income taxes	6,859	(4,805)
Net earnings (loss)	$ 12,737	$ (8,540)
Net earnings (loss) per share (basic and diluted)	$ 0.28	$ (0.22)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)	Three Months Ended March 31,	
	2002	2001
Net earnings (loss)	$ 12,737	$ (8,540)
Other comprehensive income (expense):		
Foreign currency translation adjustments	(14,826)	(39,144)
Cumulative effect of change in accounting principle, net of tax of $472 (See footnote 5)	--	840
Hedging transactions, net of taxes of $580 in 2002 and $2,093 in 2001	862	(3,720)
Other comprehensive expense	(13,964)	(42,024)
Comprehensive loss	$ (1,227)	$ (50,564)

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	March 31, 2002	December 31, 2001
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,638	$ 21,533
Accounts receivable, net	436,302	455,861
Inventories	354,672	347,591
Current deferred tax asset	35,162	36,316
Prepaid expenses	31,635	36,838
Total current assets	876,409	898,139
Property, plant and equipment, net	355,263	362,388
Goodwill	533,537	515,175
Other intangible assets, net	110,029	131,079
Other assets	152,283	145,194
Total assets	$ 2,027,521	$ 2,051,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 193,804	$ 178,480
Income taxes	3,715	--
Accrued liabilities	176,938	193,768
Long-term debt due within one year	49,960	44,523
Total current liabilities	424,417	416,771
Long-term debt due after one year	953,101	996,222
Retirement benefits and other liabilities	227,896	227,963
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value, 1,000 shares authorized, no shares issued	--	--
Common stock, $1.25 par value	60,518	60,518
Shares authorized - 120,000		
Shares issued - 48,414		
Capital in excess of par value	212,637	211,113
Retained earnings	368,735	355,998
	641,890	627,629
Treasury stock, at cost - 3,147 and 3,622 shares	(71,899)	(82,718)
Deferred compensation obligation	8,232	8,260
Accumulated other comprehensive loss	(156,116)	(142,152)

Total shareholders' equity	422,107	411,019
Total liabilities and shareholders' equity	$ 2,027,521	$ 2,051,975

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Three Months Ended March 31,	
	2002	2001
CASH FLOWS - OPERATING ACTIVITIES:		
Net earnings (loss)	$ 12,737	$ (8,540)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Depreciation	11,637	12,848
Amortization	1,377	6,051
Amortization of prepaid financing fees and discount	1,385	1,699
Net gain on the sale of fixed assets	(390)	(224)
Change in assets and liabilities:		
Accounts receivable	12,880	25,663
Inventories	(9,932)	(16,038)
Prepaid expenses	4,214	2,972
Other assets	(2,949)	(8,439)
Accounts payable	11,885	(12,300)
Accrued liabilities	(13,547)	(60,117)
Income taxes	3,715	(374)
Retirement benefits and other liabilities	1,087	(6,838)
Net deferred taxes	(4,609)	1,150
Net cash flows provided (used) by operating activities	29,490	(62,487)
CASH FLOWS - INVESTING ACTIVITIES:		
Capital expenditures	(6,109)	(7,460)
Cash received for disposal of assets	1,125	3,946
Net cash flows used by investing activities	(4,984)	(3,514)
CASH FLOWS - FINANCING ACTIVITIES:		
Net (repayments) borrowings under revolving credit agreement	(28,000)	50,000
Payments of long-term debt	(8,411)	(5,263)
Proceeds from stock option exercises	10,251	389
Other	(163)	--
Net cash flows (used) provided by financing activities	(26,323)	45,126
Effect of exchange rate changes	(1,078)	(2,845)
Net change in cash and cash equivalents	(2,895)	(23,720)
Cash and cash equivalents at beginning of year	21,533	42,341
Cash and cash equivalents at end of period	$ 18,638	$ 18,621
Income taxes paid (refunded)	$ 784	$ (6,972)
Interest paid	$ 28,422	$ 48,296

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(UNAUDITED)

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

1. ACCOUNTING POLICIES - BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of March 31, 2002, and the related consolidated statements of operations, comprehensive loss and cash flows for the three months ended March 31, 2002 and 2001 are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such consolidated financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 2001 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year. Certain amounts in 2001 have been reclassified to conform with the 2002 presentation.

2. RECENT ACCOUNTING DEVELOPMENTS

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

3. 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:

	March 31, 2002	December 31, 2001
Raw materials	$ 67,839	$ 62,818
Work in process	179,250	144,397
Finished goods	252,222	258,856
Less: Progress billings	(69,335)	(43,655)
Less: Excess and obsolete reserve	(41,150)	(40,889)
	388,826	381,527
LIFO reserve	(34,154)	(33,936)
Net inventory	$ 354,672	$ 347,591
Percent of inventory accounted for by LIFO	63%	62%
Percent of inventory accounted for by FIFO	37%	38%

4. 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 business combinations be accounted for using the purchase method. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived

intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period of intangible assets is no longer limited to forty years.

Upon adoption of SFAS No. 141 and No. 142, the Company reclassified acquired workforce intangible assets with a carrying value of $18.5 million to goodwill as that asset does not meet the new criteria for recognition apart from goodwill. The Company also determined that certain acquired trademark intangible assets have indefinite useful lives and is no longer amortizing these intangible assets. Under SFAS No. 142, goodwill is no longer amortized and instead is tested for impairment annually at the reporting unit level. The Company is still completing the required transitional goodwill impairment test, but does not expect this test to result in an impairment loss. Amortization of goodwill, workforce intangible assets reclassified to goodwill and trademark intangible assets with indefinite useful lives in the first quarter of 2001 totaled $4.7 million.

The following table reflects consolidated results in the first quarter of 2001 adjusted as though the adoption of SFAS No. 141 and No. 142 occurred on January 1, 2001:

	Three Months Ended March 31, 2001
Net income (loss):	
As reported	$ (8,540)
Goodwill amortization	2,828
Workforce intangible asset amortization	435
Trademark intangible asset amortization	146
Adjusted net loss	$ (5,131)
Net income (loss) per share (basic and diluted):	
As reported	$ (0.22)
Goodwill amortization	0.08
Workforce intangible asset amortization	0.01
Trademark intangible asset amortization	--
Adjusted net loss per share	$ (0.13)

The following tables provide information about acquired intangible assets:

	As of December 31, 2001		As of March 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Drawings	$ 63,500	$ (4,267)	$ 63,500	$ (5,021)
Distribution network	13,700	(1,051)	13,700	(1,279)
Software	5,900	(833)	5,900	(981)
Other	30,300	(7,230)	6,714	(3,564)
	$ 113,400	$ (13,381)	$ 89,814	$ (10,845)
Unamortized intangible assets- Trademarks	$ 31,060		$ 31,060	

Amortization expense:	
Actual for three months ended March 31, 2002	$1,271
Estimated for nine months ending December 31, 2002	$3,815
Estimated for year ending December 31, 2003	$5,086
Estimated for year ending December 31, 2004	$5,086
Estimated for year ending December 31, 2005	$4,963
Estimated for year ending December 31, 2006	$4,951
Estimated for year ending December 31, 2007	$4,951

The changes in the carrying amount of goodwill for the first quarter ended March 31, 2002 are as follows:

	Flowserve Pump	Flow Solutions	Flow Control	Other	Total
Balance as of December 31, 2001	$ 393,577	$ 67,915	$ 34,214	$ 19,469	$ 515,175
Reclassification of workforce intangible assets	18,501	--	--	--	18,501
Other reclassifications	10,065	4,784	5,915	(19,469)	1,295
Currency translation	(421)	(673)	(340)	--	(1,434)
BALANCE AS OF MARCH 31, 2002	$ 421,722	$ 72,026	$ 39,789	$ --	$ 533,537

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 adoption of SFAS No. 142.

5. OPTION OF SFAS NO. 133 - ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

6. RESTRUCTURING AND ACQUISITION RELATED CHARGES

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's actions, approved and committed to in the third quarter of 2000, have resulted in the net reduction of approximately 1,100 positions, which was consistent with the plan. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel. The Company established a restructuring reserve for this program in the third quarter of 2000.

During the first three months of 2001, the Company also incurred $19.1 million in integration costs in conjunction with this program. The Company substantially completed its integration activities during 2001.

Expenditures charged to the 2000 restructuring reserve were:

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

Cash expenditures	(269)	(112)	(381)
Balance at March 31, 2002	$ 2,133	$ 3,007	$ 5,140

7. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net earnings (loss)	$ 12,737	$ (8,540)
Denominator for basic earnings per share - weighted average shares	45,176	38,187
Effect of dilutive securities	629	--
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	45,805	38,187
Earnings (loss) per share - basic	$ 0.28	$ (0.22)
- diluted	$ 0.28	$ (0.22)

Options to purchase 751 shares of common stock were outstanding at March 31, 2002 that were not included in the computation of diluted EPS for the three month period ended March 31, 2002 because the options' exercise price was greater than the average market price of the common stock.

For the three months ended March 31, 2001, the effect of options to purchase 1,328 shares of common stock were excluded from the computation of diluted net loss per share since the Company incurred a net loss during those periods. Therefore, the amounts reported for basic and diluted net loss per ordinary share were the same.

8. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

In connection with the IDP acquisition and as part of the related financing, the Company and a newly formed Dutch subsidiary, Flowserve Finance B.V., issued an aggregate of $375 million of senior subordinated notes (the U.S. dollar Notes and the Euro Notes). 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 following consolidating financial information presents:

(1) Consolidating balance sheet as of March 31, 2002 and the related statements of operations and cash flows for the three months ended March 31, 2002 and 2001 of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

(2) Consolidating balance sheet as of December 31, 2001 of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and Company on a consolidated basis, and

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

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

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ --	$ --	$ 277,695	$ 193,613	$ (24,258)	$ 447,050
Cost of sales	--	--	197,651	131,622	(24,258)	305,015
Gross profit	--	--	80,044	61,991	--	142,035
Selling, general and administrative expense	--	--	68,874	31,282	--	100,156
Operating income	--	--	11,170	30,709	--	41,879
Net interest expense	(1,397)	(337)	19,882	3,671	--	21,819
Other expense (income), net	--	--	(4,196)	4,660	--	464
Equity in earnings of subsidiaries	(11,857)	--	--	--	11,857	--
Earnings (loss) before income taxes	13,254	337	(4,516)	22,378	(11,857)	19,596
Provision (benefit) for income taxes	517	--	(1,671)	8,013	--	6,859
Net earnings (loss)	$ 12,737	$ 337	$ (2,845)	$ 14,365	$ (11,857)	$ 12,737

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

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

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING BALANCE SHEET
MARCH 31, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 18,638	$ --	$ 18,638
Intercompany receivables	156,925	--	57,184	53,259	(267,368)	--
Accounts receivable, net	--	--	227,679	208,623	--	436,302
Inventories	--	--	209,255	145,417	--	354,672
Current deferred tax asset	--	--	33,060	2,102	--	35,162
Prepaid expenses	--	--	15,915	15,720	--	31,635
Total current assets	156,925	--	543,093	443,759	(267,368)	876,409
Property, plant and equipment, net	--	--	198,579	156,684	--	355,263
Investment in subsidiaries	386,553	--	464,633	--	(851,186)	--
Intercompany receivables	827,699	83,905	2,285	59,646	(973,535)	--
Goodwill, net	--	--	420,529	113,008	--	533,537
Other intangible assets, net	--	--	107,807	2,222	--	110,029
Other assets	24,159	2,523	113,837	11,764	--	152,283
Total assets	$ 1,395,336	$ 86,428	$ 1,850,763	$ 787,083	$ (2,092,089)	$ 2,027,521
Current liabilities:						
Accounts payable	$ --	$ --	$ 88,121	$ 105,683	$ --	$ 193,804
Intercompany payables	18,516	772	135,167	131,952	(286,407)	--
Income taxes	(1,257)	--	2,192	2,780	--	3,715
Accrued liabilities	9,188	866	104,458	62,426	--	176,938
Long-term debt due within one year	49,959	--	1	--	--	49,960
Total current liabilities	76,406	1,638	329,939	302,841	(286,407)	424,417
Long-term debt due after one year	896,823	55,836	420	22	--	953,101
Intercompany payables	--	36,606	822,340	92,832	(951,778)	--
Retirement benefits and other liabilities	--	--	171,489	56,407	--	227,896
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common stock	60,518	--	2	182,331	(182,333)	60,518
Capital in excess of par value	212,637	--	313,221	72,991	(386,212)	212,637
Retained earnings (deficit)	368,735	(7,861)	234,434	176,606	(403,179)	368,735
	641,890	(7,861)	547,657	431,928	(971,724)	641,890
Treasury stock at cost	(71,899)	--	--	--	--	(71,899)
Deferred compensation obligation	8,232	--	--	--	--	8,232
Accumulated other comprehensive income (loss)	(156,116)	209	(21,082)	(96,947)	117,820	(156,116)
Total shareholders' equity	422,107	(7,652)	526,575	334,981	(853,904)	422,107
Total liabilities and shareholders' equity	$ 1,395,336	$ 86,428	$ 1,850,763	$ 787,083	$ (2,092,089)	$ 2,027,521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2001

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 21,533	$ --	$ 21,533
Intercompany receivables	82,513	--	62,875	77,513	(222,901)	--
Accounts receivable, net	--	--	231,484	244,377	--	455,861
Inventories	--	--	201,707	145,884	--	347,591
Current deferred tax asset	--	--	33,727	2,589	--	36,316
Prepaid expenses	--	--	22,981	13,857	--	36,838
Total current assets	82,513	--	552,774	485,753	(222,901)	898,139
Property, plant and equipment, net	--	--	201,595	160,793	--	362,388
Investment in subsidiaries	399,026	--	464,633	--	(863,659)	--
Intercompany receivables	901,675	85,254	6,198	34,003	(1,027,130)	--
Goodwill, net	--	--	414,465	100,710	--	515,175
Other intangible assets, net	--	--	115,123	15,956	--	131,079
Other assets	29,094	2,693	100,320	13,087	--	145,194
Total assets	$ 1,412,308	$ 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	(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 stock	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

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS - OPERATING ACTIVITIES:						
Net earnings (loss)	$ 12,737	$ 337	$ (2,845)	$ 14,365	$ (11,857)	$ 12,737
Adjustments to reconcile net earnings (loss) to cash (used) provided by operating activities:						
Depreciation	--	--	6,860	4,777	--	11,637
Amortization	--	--	1,180	197	--	1,377
Amortization of prepaid financing fees and discount	1,289	96	--	--	--	1,385
Net (gain) loss on sale of fixed assets	--	--	(410)	20	--	(390)
Change in operating assets and liabilities:						
Accounts receivable	--	--	3,753	9,127	--	12,880
Inventories	--	--	(7,587)	(2,345)	--	(9,932)
Intercompany receivable and payable	13,811	1,666	(10,283)	(36,325)	31,131	--
Prepaid expenses	--	--	6,641	(2,427)	--	4,214
Other assets	8	10	(4,067)	1,100	--	(2,949)
Accounts payable	(145)	--	2,282	9,748	--	11,885
Accrued liabilities	(5,846)	(1,819)	(6,558)	676	--	(13,547)
Income taxes	--	--	17,820	(14,105)	--	3,715
Retirement benefits and other liabilities	745	--	(994)	1,336	--	1,087
Net deferred taxes	3,724	--	(4,742)	(3,591)	--	(4,609)
Net cash (used) provided by operating activities	26,323	290	1,050	(17,447)	19,274	29,490
CASH FLOWS - INVESTING ACTIVITIES:						
Capital expenditures	--	--	(2,971)	(3,138)	--	(6,109)
Disposal of assets	--	--	1,125	--	--	1,125
Change in investments in subsidiaries	--	--	--	41,407	(41,407)	--
Net cash flows used by investing activities	--	--	(1,846)	38,269	(41,407)	(4,984)
CASH FLOWS - FINANCING ACTIVITIES:						
Net repayments under revolving credit agreement	(28,000)	--	--	--	--	(28,000)
Payments of long-term debt	(8,411)	--	--	--	--	(8,411)
Proceeds from stock option exercises	10,251	--	--	--	--	10,251
Other	(163)	(290)	803	(10,790)	10,277	(163)
Net cash flows provided (used) by financing activities	(26,323)	(290)	803	(10,790)	10,277	(26,323)
Effect of exchange rate changes on cash	--	--	(7)	(1,071)	--	(1,078)
Net change in cash and cash						

equivalents	--	--	--	8,961	(11,856)	(2,895)
Cash and cash equivalents at beginning of year	--	--	--	21,533	--	21,533
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 30,494	$ (11,856)	$ 18,638

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

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS - OPERATING ACTIVITIES:						
Net earnings (loss)	$ (8,540)	$ (227)	$ (14,722)	$ 8,426	$ 6,523	$ (8,540)
Adjustments to reconcile net earnings (loss) to cash provided (used) by operating activities:						
Depreciation	7	--	7,432	5,409	--	12,848
Amortization	--	--	5,180	871	--	6,051
Amortization of prepaid financing fees and discount	1,543	156	--	--	--	1,699
Net (gain) loss on sale of fixed assets	--	--	54	(278)	--	(224)
Change in operating assets and liabilities:						
Accounts receivable	(212)	--	9,349	16,526	--	25,663
Inventories	(5,758)	--	440	(10,720)	--	(16,038)
Intercompany receivable and payable	(28,287)	25	296,036	21,498	(289,272)	--
Prepaid expenses	876	--	1,530	566	--	2,972
Other assets	(1,686)	(33)	2,797	(9,517)	--	(8,439)
Accounts payable	4,284	--	15,603	(24,457)	(7,730)	(12,300)
Accrued liabilities	(6,921)	70	(12,683)	(40,583)	--	(60,117)
Income taxes	--	--	--	(374)	--	(374)
Retirement benefits and other liabilities	(65)	--	(226)	(6,547)	--	(6,838)
Net deferred taxes	(61)	--	(4,528)	5,739	--	1,150
Net cash (used) provided by operating activities	(44,820)	(9)	306,262	(33,441)	(290,479)	(62,487)
CASH FLOWS - INVESTING ACTIVITIES:						
Capital expenditures	(306)	--	(6,030)	(1,124)	--	(7,460)
Disposal of assets	--	--	3,946	--	--	3,946
Net cash flows used in investing activities	(306)	--	(2,084)	(1,124)	--	(3,514)
CASH FLOWS - FINANCING ACTIVITIES:						
Payments on long-term debt	(5,263)	--	--	--	--	(5,263)
Net borrowings under revolving credit agreement	50,000	--	--	--	--	50,000
Other activity	389	9	(304,178)	22,382	281,787	389
Net cash flows provided (used) by financing activities	45,126	9	(304,178)	22,382	281,787	45,126
Effect of exchange rate changes on cash	--	--	--	(2,845)	--	(2,845)
Net change in cash and cash equivalents	--	--	--	(15,028)	(8,692)	(23,720)
Cash and cash equivalents at beginning of year	--	--	--	50,239	(7,898)	42,341
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 35,211	$ (16,590)	$ 18,621

9. SEGMENT INFORMATION

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

Amounts classified as All Other include Corporate Headquarters costs and other minor entities that are not considered separate segments. The Company evaluates segment performance and allocates resources based on profit or loss excluding integration expenses, interest expense, other income or expense, income taxes and extraordinary items. Intersegment sales and transfers are recorded at cost plus a profit margin. Several valve distribution centers were transferred from Flow Solutions Division to Flow Control Division during the first quarter of 2002. Amounts reported for these distribution centers in the first quarter of 2001 have been reclassified to conform to the current business configuration.

Three months ended March 31, 2002

	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 231,719	$ 141,954	$ 71,675	$ 1,702	$ 447,050
Intersegment sales	1,629	5,142	1,789	(8,560)	--
Segment operating income	26,061	16,980	5,223	(6,385)	41,879
Identifiable assets	$ 1,276,695	$ 432,594	$ 237,359	$ 77,158	$ 2,023,806

Three months ended March 31, 2001

	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 223,497	$ 143,043	$ 76,489	$ 1,006	$ 444,035
Intersegment sales	1,201	4,758	2,151	(8,110)	--
Segment operating income (before integration expense)	18,116	16,977	9,459	(7,083)	37,469
Identifiable assets	$ 1,662,265	$ 434,948	$ 230,059	$ (289,251)	$ 2,038,021

A reconciliation of total segment operating income before integration expense to consolidated earnings before income taxes follows:

	Three Months Ended March 31, 2002	2001
Total segment operating income (before integration expense)	$ 48,264	$ 44,552
Corporate expenses and other	6,385	7,083
Integration expense	--	19,139
Net interest expense	21,819	31,810
Other expense (income)	464	(135)
Earnings (loss) before income taxes	$ 19,596	$ (13,345)

10. SUBSEQUENT EVENTS

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 is a manufacturer of valves, actuators and associated flow control products. The Company financed the acquisition and associated transaction costs by issuing 9.2 million shares of common stock for net proceeds of approximately $277 million in April 2002 and borrowing the remainder through its senior secured credit facility. The Company used approximately $40 million of the new equity financing to reduce amounts outstanding under the Company's revolving credit facility.

The Company obtained the incremental new borrowings under its senior credit facilities by amending the agreement to borrow $700.0 million under a new tranche C term loan, borrow $95.3 million under a new tranche A term loan, repay $11.3 million of the existing tranche A term loan and repay all $468.8 million of the existing tranche B term loan. Certain other terms of the senior credit facility were changed. These changes include a maturity in 2009 rather than 2008 for the tranche C term loan, a lower interest rate and modified covenants. As a result of repaying the tranche B term notes on May 2, 2002, the Company incurred pre-tax extraordinary expense of approximately $10 million primarily from writing off the unamortized balance of the existing tranche B term loan facility prepaid financing fees.

The revised scheduled principal payments of the term loans after giving effect to borrowings for the acquisition of IFC are summarized as follows: $43.7 million in the remainder of 2002, $78.7 million in 2003, $84.0 million in 2004, $89.3 million in 2005, $56.0 million in 2006, $100.0 million in 2007, $388.0 million in 2008, and $194.0 million in 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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, automated and manual quarter-turn valves, control valves, valve actuators 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 often corrosive fluids in environments with extreme temperature, pressure, horsepower and speed. Flowserve's businesses are affected by economic conditions in the United States and other countries where its products are sold and serviced, the cyclical nature of the petroleum, chemical, power and other industries served, by the relationship of the U.S. dollar to other currencies, and by the demand for and pricing of customers' products. The Company believes the impact of these conditions is somewhat mitigated by the strength and diversity of Flowserve's product lines, geographic coverage and significant installed base, which provides potential for an annuity stream of revenue from parts and services.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2002

Sales increased about 1.0% to $447.1 million for the three months ended March 31, 2002, compared with $444.0 million for the same period in 2001. Sales were positively impacted by improved business activity in the petroleum and water markets. However, sales were negatively impacted by an unfavorable currency translation of approximately 3.0% and continued weakness in the chemical and general industrial sectors. The

change in sales is discussed further in the following section on Business Segments. Net sales to international customers, including export sales from the U.S., were 47% of sales, similar to the first quarter of 2001.

Bookings, or incoming orders for which there are purchase commitments, were $473.8 million, 4.5% lower than the first quarter of 2001 when bookings were $496.3 million. Excluding negative currency translation, bookings were about flat compared with last year's first quarter. Sequentially, first quarter 2002 bookings were up 5.0% over fourth quarter 2001 bookings. The improvement reflects strength in the petroleum, power and water markets during the quarter. Bookings activity in the chemical and general industrial markets of the business was soft throughout the quarter compared with the first quarter of the previous year. At March 31, 2002, backlog was $683.4 million, a decrease of 1.0% compared with the first quarter of 2001 and an increase of 3.0% compared to year end

2001.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Flowserve Pump Division (FPD) for engineered and industrial pumps; Flow Solutions Division (FSD) for precision mechanical seals and flow management services; and Flow Control Division (FCD) for automated and manual quarter-turn valves, control valves, nuclear valves and valve actuators. Several valve distribution centers were transferred from FSD to FCD during the first quarter of 2002. Amounts reported for these distribution centers in the first quarter of 2001 have been reclassified to conform to the current business configuration.

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

	FLOWSERVE PUMP DIVISION	
	Three Months Ended March 31,	
(In millions of dollars)	2002	2001
Sales	$ 233.3	$ 224.7
Operating income (before integration expense)	26.1	18.1

The sales increase in the first quarter of 2002 compared with the first quarter of 2001 was largely due to improved business activity in the petroleum and water markets. These improvements were partially offset by weakness in the chemical and general industrial markets and unfavorable currency translation of about 3.0%.

Operating income, before integration expense, increased 44.0% to $26.1 million from the prior period of $18.1 million. Operating income, before integration expense, as a percentage of sales increased to 11.2% in the first quarter of 2002 from 8.1% in the prior year period. Operating income, before integration expense, increased 22.0% from prior period operating income, before integration expense, of $21.4 million on a pro forma basis excluding amortization of goodwill and intangible assets with indefinite useful lives. The increase primarily resulted from the synergy savings realized from the integration of Ingersoll-Dresser Pump Company (IDP), acquired in August 2000. The savings were partially offset by unfavorable currency translation which negatively impacted operating income by 7.3%.

	FLOW SOLUTIONS DIVISION	
	Three Months Ended March 31,	
(In millions of dollars)	2002	2001
Sales	$ 147.1	$ 147.8
Operating income (before integration expense)	17.0	17.0

Sales for the three months ended March 31, 2002 of $147.1 million were similar to sales for the three months ended March 31, 2001. Improvements in the seal business were offset by weakness in the service business and unfavorable currency translation of about 3.0%.

Operating income before integration expense of $17.0 million was unchanged from the prior year. Operating income before integration expense, as a percentage of sales, was unchanged at 11.6%. Operating income, before integration expense, decreased 5.0% from prior period operating income of $17.9 million on a pro forma basis excluding amortization of goodwill. The decrease is primarily due to unfavorable translation which negatively impacted operating income by 5.6%.

	FLOW CONTROL DIVISION Three Months Ended March 31,	
(In millions of dollars)	2002	2001
Sales	$ 73.5	$ 78.6
Operating income (before integration expense)	5.2	9.5

Sales were impacted by a slowdown in quick turnaround business, weakness in the chemical sector and unfavorable currency translation of about 2.0%.

Operating income, before integration expense, was $5.2 million in the first quarter of 2002 compared with $9.5 million in the prior year period. Operating income, before integration expense, as a percentage of sales was 7.1% in the first quarter of 2002, compared with 12.1% in 2001. Operating income, before integration expense, decreased 48.0% from prior period operating income, before integration expense, of $10.0 million on a pro forma basis excluding amortization of goodwill. The decline in profitability reflects a mix shift toward original equipment, lower absorption of manufacturing costs due to lower production to reduce finished goods inventory and unfavorable currency translation of 2.5%.

CONSOLIDATED RESULTS

Gross profit of $142.0 million increased 3.2% compared with the prior year period despite relatively flat sales. The gross profit margin was 31.8% for the three months ended March 31, 2002, compared with 31.0% for the same period in 2001. This improvement primarily resulted from manufacturing integration synergies related to the IDP acquisition. This improvement was partially offset by the overall effort to reduce inventory which lowered the absorption of manufacturing costs and a less profitable product mix consisting of a lower mix of chemical process pumps and valves. The impact of no longer amortizing intangible assets with indefinite useful lives on gross profit was not significant.

Inventories are stated at the lower of cost or market. Cost is determined for U.S. inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method. The Company's LIFO reserve for U.S. inventories of $34.2 million at March 31, 2002 was essentially unchanged from $33.9 million at December 31, 2001.

Selling, general and administrative expense of $100.2 million was flat with the prior year period. Selling, general and administrative expense, as a percentage of net sales, of 22.4% for the quarter ended March 31, 2002 was flat with the prior year period. The reduction from no longer amortizing goodwill and other intangible assets with indefinite useful lives was partially offset by period costs associated with certain headcount reductions.

Operating income increased more than 128 percent to $41.9 million in the first quarter of 2002 compared with $18.3 million in the year ago period. Operating income, before integration expense, increased 11.8% over the prior year quarter. Operating income, before integration expense, was similar to the first quarter of 2001 on a pro forma basis excluding amortization of goodwill and intangible assets with indefinite useful lives. Synergy benefits related to the acquisition and integration of IDP were offset by unfavorable currency translation.

Net interest expense during the first quarter of 2002 was $21.8 million, compared with $31.8 million in the same period in 2001 due to lower interest rates and a lower debt balance as a result of early extinguishment of senior subordinated notes in November 2001 with proceeds from a sale of the Company's common shares.

The Company's effective tax rate for the first quarter of 2002 was 35.0% compared with 36.0% in the first quarter of 2001 primarily due to the elimination of goodwill amortization not deductible for income tax purposes.

Net earnings increased in the first quarter of 2002 to $12.7 million, or $0.28 per share, compared with earnings, before integration expense, of $3.7 million, or $0.10 per share, in the first quarter of 2001. Net earnings, before integration expense, for the first quarter of 2001 were $7.1 million, or $0.19 per share, excluding amortization of goodwill and other intangible assets with indefinite useful lives. Net earnings for the first quarter of 2002 of $12.7 million, or $0.28 per share, compared with a loss of $8.5 million, or $0.22 per share, for the same period in 2001 and a pro forma loss of $5.1 million, or $0.13 per share, in the same period excluding amortization of goodwill and other intangible assets with indefinite useful lives.

RESTRUCTURING

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's actions, approved and committed to in the third quarter of 2000, have resulted in the net reduction of approximately 1,100 positions, which was consistent with the plan. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel. The Company established a restructuring reserve for this program in the third quarter of 2000.

During the first three months of 2001, the Company also incurred $19.1 million in integration costs in conjunction with this program. The Company substantially completed its integration activities during 2001.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	2,402	3,119	5,521
Cash expenditures	(269)	(112)	(381)
Balance at March 31, 2002	$ 2,133	$ 3,007	$ 5,140

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations and borrowings available under the Company's existing senior credit agreement are its primary sources of short-term liquidity. Cash flows provided by operating activities in the first quarter of 2002 were $29.5 million, compared with a use of $62.5 million in 2001. Cash flows from operating activities for 2002 were significantly above 2001 cash flows, generally due to payments in 2001 associated with the IDP integration program, including restructuring and integration payments, lower interest expense in 2002 and decreases in working capital in 2002. The Company believes improved cash flows from operating activities combined with availability under its existing credit agreement will be sufficient to enable the Company to meet its cash flow needs for the next 12 months. However, cash flows from operations could be adversely affected by economic, political and other risks associated with international sales and operations, intense competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors.

Capital expenditures were $6.1 million during the first three months of 2002, compared with $7.4 million in the first three months of 2001. Capital expenditures were funded primarily by operating cash flows. For each period, capital expenditures were invested in new and replacement machinery and equipment, information technology and, in 2001, integration activities including structures and equipment required at receiving facilities.

FINANCING

During the third quarter of 2000, in connection with the acquisition of IDP, the Company entered into a Senior Secured Credit Facility (the Credit Facility) which included a $275 million term loan (Tranche A) due June 2006, a $475 million term loan (Tranche B) due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The Credit Facility is secured by substantially all domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. The term loans bear floating interest rates based on LIBOR plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. The credit spread can increase or decrease based on the Company's leverage ratio as defined. At March 31, 2002 the interest rates on the term loans were 4.6250%, 4.6875% and 4.8125% relating to Tranche A and 5.3750% and 5.4375% relating to Tranche B. As of March 31, 2002, $42.0 million of the revolving credit was drawn and $718.5 million of the term loans were outstanding.

The term loans require scheduled principal payments which began June 30, 2001. At March 31, 2002, the Company had repaid $31.5 million of the term loans. The scheduled principal payments of the term loans outstanding at March 31, 2002 are summarized as follows: $36.1 million in the remainder of 2002, $59.4 million in 2003, $63.3 million in 2004, $67.3 million in 2005, $105.9 million in 2006, $257.5 million in 2007 and $129.1 million in 2008. The Company is required to use a percentage of excess cash from operations, as defined in the Credit Facility and the indenture, to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2002 under this provision.

The revolving credit facility allows the Company to issue up to $200 million in letters of credit. As of March 31, 2002, $41.5 million of letters of credit had been issued under the facility. As letters of credit issued under the facility reduce availability, the Company had $216.5 million remaining in unused borrowing capacity at March 31, 2002 under the revolving credit facility.

In connection with the acquisition of IDP, the Company also issued 10 year senior subordinated notes on August 8, 2000 in a U.S. dollar tranche and a Euro tranche. Proceeds of $285.9 million from the dollar tranche and EUR 98.6 million from the Euro tranche, equivalent to $89.2 million, were also used in completing the IDP acquisition. The balance of the dollar tranche and Euro tranche was $186.3 million and $55.8 million, respectively, at March 31,

2002. The notes, issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal payment prior to maturity in August 2010. Beginning in August 2005, the notes become callable at a fixed redemption price. The notes can also be redeemed by the Company under certain circumstances and have mandatory redemption features under certain circumstances, including a change in control as defined. Interest on the notes is payable semi-annually in February and August. About one-third of these notes were called at a premium in December 2001 utilizing the proceeds of an equity offering according to the redemption provisions of the indenture.

The Company has significant indebtedness in relation to shareholders' equity. The Company's indebtedness increases its vulnerability to adverse economic and industry conditions, requires 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. The increase in its outstanding indebtedness as a result of the financing for the acquisition of IFC increases the Company's exposure to these factors.

The provisions of the Company's senior credit facilities existing prior to the acquisition of IFC required the Company to meet or exceed specified financial covenants that are defined in the senior credit facility. The terms of the senior credit facility amended and restated for the acquisition of IFC also contain similar financial covenants. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the senior credit facilities and the senior subordinated notes contain limitations or restrictions on indebtedness, liens, sale and leaseback transactions, acquisitions, asset sales, payment of dividends or other distributions, capital expenditures, and other customary restrictions. At March 31, 2002, the Company was in compliance with these covenant and, while the Company expects to comply with such covenants in the future, there can be no assurance that it will do so.

At March 31, 2002, net debt was 70% of the Company's capital structure compared with 71.3% at December 31, 2001. The ratio decreased due to the repayments of term loans and a reduction in the revolving credit borrowings. On a pro forma basis including financing for the acquisition of IFC, net debt was 64.4% of the Company's capital structure at March 31, 2002.

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. IFC is one of the world's foremost manufacturers of valves, actuators and associated flow control products. With this acquisition, Flowserve becomes the second largest manufacturer of valves. The Company financed the acquisition and associated transaction costs by issuing 9.2 million shares of common stock for net proceeds of approximately $277 million in April 2002 and through new borrowing under its senior secured credit facilities. The Company used approximately $40 million of the new equity financing to reduce amounts outstanding under the Company's revolving credit facility.

The Company obtained the incremental new borrowings under its senior credit facilities by amending the agreement to borrow $700 million under a new tranche C term loan, borrow $95.3 million under a new tranche A term loan, repay $11.3 million of the existing tranche A term loan and repay all $468.8 million of the existing tranche B term loan. Certain other terms of the senior credit facility

were changed. These changes include a maturity in 2009 rather than 2008 for the tranche C term loan, a lower interest rate, and modified covenants. As a result of repaying the tranche B term notes on May 2, 2002, the Company incurred pre-tax extraordinary expense of approximately $10 million primarily from writing off the unamortized balance of existing tranche B term loan facility prepaid financing fees.

The revised scheduled principal payments of the term loans after giving effect to borrowings for the acquisition of IFC are summarized as follows: $43.7 million in the remainder of 2002, $78.7 million in 2003, $84.0 million in 2004, $89.3 million in 2005, $56.0 million in 2006, $100.0 million in 2007, $388.0 million in 2008, and $194.0 million in 2009.

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

RECENT ACCOUNTING DEVELOPMENTS

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 business combinations be accounted for using the purchase method. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period of intangible assets is no longer limited to forty years.

Upon adoption of SFAS No. 141 and No. 142, the Company reclassified acquired workforce intangible assets with a carrying value of approximately $18.5 million to goodwill that do not meet the new criteria for recognition apart from goodwill. The Company also determined that certain acquired trademark intangible assets have indefinite useful lives and is no longer amortizing these intangible assets. Under SFAS No. 142, goodwill is no longer amortized and instead is tested for impairment annually at the reporting unit level. The Company is still completing the required transitional goodwill impairment test, but does not expect this test to result in an impairment loss.

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

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

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 March 31, 2002, after the effect of interest rate swaps held by the Company, the Company had approximately $635.5 million of variable-rate debt obligations outstanding with a weighted average interest rate of 5.1335%. A hypothetical change of 100-basis points in the interest rate for these borrowings, assuming debt levels at March 31, 2002, would change interest expense by approximately $1.6 million for the quarter ended March 31, 2002.

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it expects all counterparties to meet their obligations given their creditworthiness. As of March 31, 2002, the Company had $125.0 million of notional amount in outstanding interest rate swaps with third parties with maturities of up to 4 years 8 months.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. Based on the sensitivity analysis at March 31, 2002, a 10% adverse change in the foreign currency exchange rates could impact the Company's results of operation by $0.6 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, Argentine 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 is to generate profits. As of March 31, 2002, the Company had an U.S. dollar equivalent of $67.6 million in outstanding forward contracts with third parties.

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

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

The following Current Reports on Form 8-K were filed with the Securities and Exchange Commission during the quarterly period covered by this report:

Current Report on Form 8-K filed on March 22, 2002, pursuant to Item 5 (Other Events) announcing the acquisition of the Flow Control Division of Invensys plc.

Current Report on Form 8-K filed on March 29, 2002, pursuant to Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits) to file and incorporate by reference the Purchase and Sale Agreement between the Company and Invensys plc for the Company's acquisition of the Flow Control Division of Invensys plc.

SIGNATURE

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

FLOWSERVE CORPORATION
(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: May 15, 2002
