

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997  
OR  
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-13179

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

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

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

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

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

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

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

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

Yes    X    No

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of February 13, 1998 (based on the closing sale price as reported on the New York Stock Exchange on such date) was \$1,257,906,020.

The number of shares outstanding of the registrant's Common Stock as of February 13, 1998: 40,616,082 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on or about May 21, 1998, are incorporated by reference into Part III

of this Form 10-K.

Portions of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1997, are incorporated by reference into Parts I, II and IV of this Form 10-K.

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## PART I

### ITEM 1. BUSINESS

Flowserve Corporation ("Flowserve") was incorporated under the laws of the State of New York on May 1, 1912. On July 22, 1997, Flowserve (formerly known as Durco International Inc. and The Duriron Company, Inc.) merged with BW/IP, Inc. ("BW/IP") in a stock-for-stock merger of equals, accounted for as a pooling of interests, with BW/IP becoming a wholly owned subsidiary of Flowserve ("Merger"). The Merger created one of the world's leading providers of industrial flow management services. All references herein to the "Company" or "Flowserve" refer collectively to Flowserve and its subsidiaries unless otherwise indicated by the context.

Flowserve is principally engaged in the design, manufacture, distribution and service of industrial flow management equipment throughout the world. The Company provides pumps, valves and mechanical seals primarily for the refinery and pipeline segments of the petroleum industry, the chemical processing industry and the power generation industry. Flowserve manufactures certain standard products, but specializes in the development of precision engineered equipment for critical service applications where high reliability is required. The Company's materials expertise, design and engineering capabilities and applications know-how have enabled it to develop product lines that are responsive to customers needs for manufacturing efficiency, reduced maintenance cost, and avoidance of premature equipment failure.

An important element of Flowserve's business is its successful emphasis on providing aftermarket products and services. These consist of supplying parts, making repairs and providing a variety of technical services for the upgrade or retrofit of equipment to extend its useful life or improve its operating characteristics.

The Company operates in one business segment that includes three types of products: Rotating Equipment, Flow Control and Fluid Sealing. Included at Note 12 of the Financial Statements, provided as part of Item 8 of this Form 10-K and incorporated herein by reference, is information concerning the Company's revenues, operating profit and identifiable assets by geographic area for each year in the three-year period ended December 31, 1997. For a significant portion of its products, the Company's domestic operations supply each other and the Company's foreign manufacturing subsidiaries with components and subassemblies.

#### ROTATING EQUIPMENT DIVISION

##### PRODUCTS

Through its Rotating Equipment Division, the Company designs, manufactures, distributes and services pumps and related equipment. Pump products and services accounted for approximately 45%, 44% and 43% of the Company's 1997, 1996 and 1995 sales, respectively. Pumps are manufactured to industry-recognized standards, including those set by the American Petroleum Institute (API) and the American National Standards Institute (ANSI).

Pump products for the petroleum industry include horizontal double case pumps used especially for hot oils under high pressure, horizontal multi-stage pumps used in pipelines, vertical pumps used for low temperature processes, vertical circulating pumps used for cooling water, submersible pumps used for water or

brine injection in oil fields, and submersible water pumps used on offshore platforms to supply water for fire fighting.

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Pump products for chemical processing industries include metallic and non-metallic pumps, varying in size, capacity, material components and sealant specifications. These pumps are used primarily to move liquids during processing activities, but also in auxiliary services such as waste removal, water treatment and pollution control. The pumps are modular in design and manufactured to withstand the abrasive and/or corrosive service fluids being processed by customers in these industries.

Pump products for the power generating industry include a variety of pumps used in both nuclear and fossil fuel facilities to generate steam. Products for the fossil fuel power generation industry are horizontal double case pumps for high pressure boiler feed, horizontal multi-stage pumps for low pressure boiler feed, vertical double case pumps and vertical circulating pumps.

The Company supplies pumps for other industrial uses, including industrial production, utility services, pollution control, mining operations and municipal water transport.

#### MARKETING AND DISTRIBUTION

Pumps or pump components are produced in plant facilities in the United States (two in California, one in Oklahoma, one in Ohio, two in New Mexico), Mexico, Argentina, Belgium and two in the Netherlands. Pump manufacturing facilities in The Netherlands and Belgium are key sources of pumps sold in Europe, Africa and the Middle East. The Argentine facility provides products primarily for Argentine customers, but also serves customers in other South American countries. The Company's Mexican operation manufactures pumps for export and for Mexican customers. Large vertical circulating pumps manufactured in Mexico are distributed worldwide. A majority-owned joint venture in India, which began production in late 1997, manufactures ANSI pumps for export to U.S., Asian and European markets.

The two specialized component manufacturing facilities in New Mexico provide a significant portion of pump components (except for ANSI pump components) previously manufactured at the Company's integrated U.S. pump plants. The integrated plants were reconfigured to focus on the engineering, assembly and testing of pumps with machining of components concentrated into two facilities. The component facilities also supply components to other Company plants outside of the U.S. on an economically selective basis.

The Company's pump products are primarily marketed to end-users and engineering contractors through the Company's worldwide pump sales force, regional service centers, independent distributors and representatives and for modular pumps a national parts distribution center. Service centers stock a full array of critical pump parts and have machining and product modification capabilities.

The majority of the Company's sales of pump products in the nuclear power market are in the United States and Japan, where the Company's large installed base of equipment provides a continuing market for products and services to ensure safety and reliability, major customer concerns. A significant characteristic of the nuclear market worldwide is the stringent requirements that must be met in order to sell products to nuclear power plants. For example, the Company maintains a Nuclear Stamp ("N Stamp") from the American Society of Mechanical Engineers, which is required for qualification to supply certain kinds of products to the U.S. nuclear industry.

The Company could face liability in excess of its own commercial or government provided insurance if any of its products were found to contribute to an accident at a nuclear power facility or at other industrial facilities. The

Company does not maintain nuclear liability insurance for the United States or Canada, but maintains an aggregate of \$15 million in nuclear liability insurance for all other countries. The Federal Price-Anderson Act of 1954 provides U.S. nuclear utilities with a system of no-fault

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insurance coverage in an amount up to about \$8.7 billion for third party losses or damages resulting from a nuclear incident. Canada's Nuclear Liability Act provides for a system of insurance coverage that generally makes the operator of a nuclear installation absolutely liable for third party claims arising as a result of a nuclear incident, up to a maximum liability of (C)\$75 million.

#### FLOW CONTROL DIVISION

##### PRODUCTS

Through its Flow Control Division, the Company designs, manufactures, distributes and services mechanical and quarter-turn valves, automatic control valves, actuators, and related components. Valve products and services accounted for approximately 27%, 28% and 28% of the Company's 1997, 1996 and 1995 sales, respectively. Valves are used to control the flow of liquids and gases. Valve products for industrial processing systems include plug and butterfly valves made of various metals, alloys and plastics and lined ball valves. Actuators and other control accessories manufactured by the Company are either sold independently or mounted on valves to move them from open to closed positions and to various specified positions in between. Valve products for the nuclear power market include a complete line of gate, globe and check valves (including valve actuators). Automatic control valves include high pressure valves, rotary valves, anti-noise and anti-cavitation valves and are generally sold with an actuator.

#### MARKETING AND DISTRIBUTION

Valves are produced at facilities in the United States (one in Utah, one in Pennsylvania, one in Tennessee), Australia, Canada, France, Germany and Switzerland. Actuators are produced at facilities in the United States (Utah and Ohio), Canada, France, and Italy. Two Company majority-owned joint ventures in India (which began production in late 1997) manufacture valves for export to U.S., Asian and European markets.

Manual valve products and valve actuators are distributed through the Company's sales personnel, service centers and through a network of independent stocking distributors. Automatic control valves are marketed through specialized sales offices with engineers and service centers or on a commission basis through independent manufacturing representatives in principal marketing centers throughout the United States and other countries.

#### FLUID SEALING DIVISION

##### PRODUCTS

Through its Fluid Sealing Division, the Company designs, manufactures, distributes and services mechanical seals and sealing systems. Mechanical seal products and services accounted for approximately 28%, 28% and 29% of the Company's 1997, 1996 and 1995 sales, respectively. The mechanical seal is critical to the smooth operation of centrifugal pumps, compressors and mixers because mechanical seals help prevent leakage between a rotating shaft and a stationary casing. In doing so, mechanical seals reduce shaft wear on pumps, compressors and mixers used in many industries. The need to reduce or eliminate the leakage of liquids and gases due to increasingly stringent environmental regulations and safety concerns has expanded the market for mechanical seals. The Company's seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, principally in the oil refining and chemical processing industries. The Company also manufactures a dry gas seal used in gas transmission and oil and gas production markets.

## MARKETING AND DISTRIBUTION

Mechanical seals are produced in facilities in the United States (one in California, one in Michigan), The Netherlands, Germany, Mexico, Argentina, Brazil, Singapore, New Zealand and Japan. Seal manufacturing facilities in The Netherlands and Germany are key sources of seals sold in Europe, Africa and the Middle East. The Argentine facility provides products primarily for Argentine markets, but also serves markets in other South American countries. The Japanese plant provides products for Japan and parts of Southeast Asia.

The Company's mechanical seal products are primarily marketed through the Company's worldwide seals sales force directly to end users and engineering and construction firms. A portion of the Company's seal products is sold directly to original equipment ("OE") manufacturers for pumps, compressors, mixers or other rotary equipment requiring seals. Distributors, dealers, commissioned representatives and sales agents are also used in the distribution and sale of mechanical seal products.

## GENERAL BUSINESS

### SERVICE AND REPAIR

The Company has established certain facilities throughout the world which have the capability to provide service and repair functions for all Company products from the Rotating Equipment, Fluid Sealing and Flow Control Divisions. The Company believes that these consolidated service and repair facilities provide a substantial growth opportunity and has established a special management team to focus on this effort.

## BACKLOG

The Company's backlog of orders at December 31, 1997, was \$291.6 million compared to \$287.1 million at December 31, 1996. The Company believes that a high percentage of the current backlog will be shipped by December 31, 1998.

## COMPETITION

The markets for the Company's products are highly competitive. Competition occurs on the basis of price, technical expertise, delivery, previous installation history and reputation for quality. Delivery speed and the proximity of service centers are particularly important with respect to aftermarket products. Customers are more likely to rely on the Company than competitors for aftermarket products relating to its more highly engineered and customized products than for its standard products. Price competition tends to be more significant for OE manufacturers than aftermarket services and has been increasing with ongoing overcapacity in pump markets.

In the aftermarket portion of its pump business, the Company competes against both large and well-established national or global competitors and, in some markets, against smaller regional and local companies, as well as the in-house maintenance departments of the Company's end-user customers. In the sale of aftermarket products and services, the Company benefits from the large installed base of pumps which require maintenance, repair and replacement parts.

In the petroleum industry the competitors for aftermarket services tend to be the customers themselves because of their sophisticated 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 repair shops for the Company's products. The Company has certain competitive advantages in the

nuclear power industry because it maintains the N stamp that is required to service customers in that industry, and because the Company has a considerable base of proprietary knowledge.

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

#### RESEARCH AND DEVELOPMENT

The Company conducts research and development at its own facilities in various locations. In 1997, 1996, and 1995, the Company spent approximately \$14.8 million, \$13.9 million, and \$13.6 million, respectively, on Company-sponsored research and development, primarily for new product development

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

#### CUSTOMERS

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 1997 net sales.

#### RISKS OF INTERNATIONAL BUSINESS

Approximately 48% of the Company's sales are to customer locations outside the United States. The Company's activities thus are subject to the customary risks of operating in an international environment, such as unstable political situations, local laws, the potential imposition of trade restrictions or tariff increases and the relationship of the U.S. dollar to other currencies. The impact of these conditions is mitigated somewhat by the strength and diversity of the Company's product lines and geographic coverage. To minimize the impact of foreign exchange rate movements on its operating results, the Company enters into forward exchange contracts to hedge specific foreign currency denominated transactions. See Note 1 to Consolidated Financial Statements on pages 23 and 24 of the 1997 Annual Report to Shareholders, which is incorporated by reference in this Form 10-K. The Company conducts substantial business activities in the Middle East.

#### 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 Byron Jackson(R), Durco(R), United Centrifugal(R), Byron Jackson/United(R), Durametallic(R), BW Seals(R), GASPAC(R), Pacific Wietz(TM), Five Star Seal(R), Wilson-Snyder(R), Valtek(R), Kammer(R), Sereg(TM) and Automax(R) to be important to its business. The patents underlying much of the technology for the Company's products have been in the public domain for many years. Surviving patents are not considered, either individually or in the aggregate, material to the Company's business. However, the Company's pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of its products and their use, is considered particularly important and valuable. Accordingly the Company protects such proprietary information.

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The Company, in general, is the owner of the rights to the products which it manufactures and sells, and the Company is not dependent in any material way upon any license or franchise to operate.

#### RAW MATERIALS

The principal raw materials used by the Company in the manufacture of its products are normally readily available. While substantially all raw materials are purchased from outside sources, the Company has been able to obtain an adequate supply of raw materials, and no shortage of such materials is currently anticipated. The Company intends to expand its use of worldwide sourcing to capitalize on low cost sources of purchased goods.

The Company is a vertically-integrated manufacturer of certain products. Certain corrosion-resistant castings for Company pumps and quarter-turn valves are manufactured at the Dayton, Ohio foundries; other metal castings are purchased from outside sources.

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

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

#### EMPLOYEES AND LABOR RELATIONS

The Company and its subsidiaries employ approximately 7,200 persons of whom approximately 59% work in the United States. The Company's hourly employees at its four principal U.S. pump manufacturing plants in Los Angeles, California, San Jose, California (to be closed in mid-1998), Dayton, Ohio, and Tulsa, Oklahoma, at its valve manufacturing plant in Williamsport, Pennsylvania and at its foundry in Dayton, Ohio are represented by unions. The Company's operations in Mexico, The Netherlands, Germany and Belgium are unionized. The Company believes employee relations throughout its operations are satisfactory.

#### ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

The Company is subject to environmental laws and regulations in all jurisdictions in which it has operating facilities and periodically makes capital expenditures for pollution abatement and control to meet environmental requirements. At present the Company has no plans for any material capital expenditures for environmental control facilities. However, the Company has experienced and continues to experience operating costs relating to environmental matters, although certain costs have been offset in part by the Company's successful waste minimization programs.

The Company believes that future environmental compliance expenditures will not have a material adverse effect on its financial position and has established allowances which it believes to be adequate to cover potential environmental liabilities.

#### EXPORT LICENSES

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 seal products as well.

## ITEM 2. PROPERTIES

The Company's corporate headquarters is a leased facility in Irving, Texas encompassing approximately 34,000 square feet.

The location, size and products manufactured at the Company's principal manufacturing facilities are as follows:

LOCATION -----	SQUARE FOOTAGE -----	PRODUCTS MANUFACTURED -----
DOMESTIC:		
Dayton, Ohio	600,000	Castings and pumps
Cookeville, Tennessee	190,000	Valves
Springville, Utah	140,000	Valves and actuators
Springboro, Ohio	50,000	Plastic components for pumps and valves
Kalamazoo, Michigan	137,000	Mechanical seals
Temecula, California	64,000	Mechanical seals
Los Angeles, California	273,000	Pumps
Williamsport, Pennsylvania	141,000	Valves
Tulsa, Oklahoma	320,000	Pumps
Albuquerque, New Mexico	50,000	Components for pumps
San Jose, California	99,000	Pumps
INTERNATIONAL:		
Mendoza, Argentina	81,000	Pumps and mechanical seals
Petit Rechain, Belgium	65,000	Pumps and valves
Ahaus, Germany	68,000	Valves
Dortmund, Germany	70,000	Mechanical seals
Essen, Germany	50,000	Valves and actuators
Santa Clara, Mexico	154,000	Pumps and mechanical seals
Etten-Leur, The Netherlands	175,000	Pumps
Hengelo, The Netherlands	49,400	Pumps
Roosendaal, The Netherlands	48,400	Mechanical seals

All of the Company's principal manufacturing facilities are owned with the exception of the facilities in Cookeville, Tennessee; Springboro, Ohio; Hengelo, The Netherlands; and Dortmund, Germany.

On the average, the Company utilizes approximately 80% to 90% 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.

The Company maintains a substantial network of domestic and foreign service centers and sales offices most of which are leased.

The Company is leasing its former manufacturing facility in Van Nuys, California to a third party with an option to purchase. In November 1997, the Company announced the closing of its San Jose pump manufacturing facility in 1998 and has entered into a letter of intent to sell this property.

## ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business, none of which it believes to be material to its financial condition. For further information about such litigation, see Note 9 of the Financial Statements, provided as part of Item 8 of this Form 10-K and incorporated herein



by reference.

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

None.

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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. In January 1998, the Company's records showed approximately 2,500 shareholders of record. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 13,200 beneficial owners of its common stock. During 1997, the Company paid a dividend of fourteen cents per share each calendar quarter, and, in 1996, a dividend of thirteen cents per share each calendar quarter.

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

	1997 ----	1996 ----
First Quarter	\$27.12/\$21.88	\$29.25/\$20.50
Second Quarter	\$30.00/\$21.25	\$29.38/\$23.00
Third Quarter	\$36.63/\$28.81	\$27.50/\$19.25
Fourth Quarter	\$30.56/\$26.38	\$28.50/\$25.25

During 1997, 1996 and 1995, the Company issued 21,700, 29,900 and 4,100 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 officers of the Company subject to restrictions on transfer.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1997, which appears on page 18 of the 1997 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis appears on pages 14 through 17 of the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements together with the report thereon of Ernst & Young LLP dated February 20, 1998, and supplementary data appearing on pages 19 through 38 of the 1997 Annual Report to Shareholders are incorporated herein by reference.

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

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on or about May 21, 1998, (the "1998 Proxy Statement") is incorporated herein by reference. The executive officers of the Company, all positions and offices presently held by each person named, their ages as of March 1, 1998, 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 -----
Bernard G. Rethore Chairman of the Board of Directors and Chief Executive Officer	56	Chairman of the Board of Directors and Chief Executive Officer since July 1997; Chairman of the Board of Directors of BW/IP from February 1997 to July 1997 and President and Chief Executive Officer and a Director of BW/IP from 1995 to July 1997; Senior Vice President of Phelps Dodge Corporation and President of Phelps Dodge Industries, its diversified international manufacturing business, from 1989 to 1995.
William M. Jordan President and Chief Operating Officer	54	President and a Director since 1991 and Chief Operating Officer since July 1997; Chairman of the Board from 1996 to July 1997 and Chief Executive Officer from 1993 to July 1997; Chief Operating Officer from 1990 to 1993.
Renee J. Hornbaker Vice President and Chief Financial Officer	45	Vice President and Chief Financial Officer since December 1997; Vice President, Business Development from July 1997 to December 1997. Vice President, Finance and Chief Financial Officer of BW/IP from May 1997 to July 1997; Vice President, Business Development of BW/IP from 1996 to May 1997. Director-Business Analysis and Planning of Phelps Dodge Industries, the diversified international manufacturing business of Phelps Dodge Corporation, from February to April 1996 and Director Financial Analysis and Control from July 1991 to February 1996.
Rick L. Johnson Vice President, Business Development	45	Vice President, Business Development since January 1998; Vice President and Controller of the Industrial Products Division from July 1997 to January 1998; Industrial Products Group Vice President and Controller from 1995 to July 1997; President Durco Valtek (Singapore) from 1993 to 1995; Corporate Controller 1991 to 1993.
Rory E. MacDowell Vice President and Chief Information Officer	47	Vice President and Chief Information Officer since March 1998; Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to September 1997; various information technology management positions in the oilfield services division of Schlumberger from 1985 to 1993.

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Cheryl D. McNeal Vice President, Human Resources	47	Vice President, Human Resources since 1996; Assistant Vice President, Human Resources and other Human Resource management positions at NCR from 1978 to 1996.
George A. Shedlarski President, Fluid Sealing Division	54	President, Fluid Sealing Division since October 1997. President, Service Repair Division from July 1997 to October 1997. President Rotating Equipment Group from March 1997 to July 1997. Group Vice President, Industrial Products Group from 1994 to March 1997; Vice President U.S. Operations from 1990 to 1994.
Ronald F. Shuff Vice President, Secretary and General Counsel	45	Vice President since 1990 and Secretary and General Counsel since 1989 .
Mark E. Vernon President, Flow Control Division	45	President, Flow Control Division since October 1997 and President, Industrial Products Division from July 1997 to October 1997. Group Vice President, Flow Control Group from 1993 to July 1997. President of the Company's Valtek, Inc. subsidiary from 1991 to 1993.
Reid B. Wayman President, Service Repair Division	45	President, Service Repair Division since October 1997; President Flow Control Division from July 1997 to October 1997; Group Vice President, Flow Control Group from March 1997 to July 1997; Vice President, Sales and European Operations of the Rotating Equipment Group from 1996 to March 1997; Vice President -European Operations of the Flow Control Group from December 1992 to April 1996.
Howard D. Wynn President, Rotating Equipment Division	51	President, Rotating Equipment Division since July 1997; Vice President of BW/IP and President, Pump Division from August 1996 to July 1997; Vice President of the BW/IP Pump Division from 1993 to August 1996; Operations Manager, Service of BW/IP from 1988 to 1993.
Charles F. Cargile Corporate Controller	33	Corporate Controller since July 1997; Corporate Controller of BW/IP from December 1996 to July 1997; Director Corporate Accounting of BW/IP from March 1996 to December 1996; Manager Operations and Financial Analysis from 1992 to March 1996.
Scott E. Messel Treasurer	39	Treasurer since January 1998; Vice President and Director, International Treasury from 1994 to December 1997 and other increasingly responsible management positions from 1983 to 1994 at Ralston Purina Company, a manufacturer of pet foods, food-related products and battery products.

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#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the 1998 Proxy Statement and is incorporated herein by this reference.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is set forth in the 1998 Proxy Statement and is incorporated herein by this reference.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is set forth to the extent applicable in the 1998 Proxy Statement and is incorporated herein by this reference.

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

(a) 1. Financial Statements

The financial statements, together with the report thereon of Ernst & Young LLP dated February 20, 1998, appearing on pages 19 through 38 of the 1997 Annual Report to Shareholders, listed in the accompanying index on page F-1, are incorporated herein by reference.

2. Financial Statement Schedules

The required financial statement schedules together with the report thereon of Ernst & Young LLP dated February 20, 1998, listed in the accompanying index on page F-1, are filed as part of this Form 10-K.

3. Exhibits

The exhibits listed on the accompanying index to exhibits on pages 14 through 19 are filed as part of this Form 10-K.

(b) Reports on Form 8-K

None.

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

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

INDEX TO EXHIBITS\*

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger dated as of May 6, 1997, among the Company, Bruin Acquisition Corp. and BW/IP, Inc. ("BW/IP") was filed as Annex I to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.
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 with the Commission 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, indenture of mortgage and deed of trust, and guarantee agreement, all executed on June 1, 1978 in connection with 9-1/8% Industrial Development Revenue Bonds, Series A, City of Cookeville, Tennessee. +
- 4.2 Lease agreement, indenture of trust, and guaranty agreement, all executed on June 1, 1978 in connection with 7-3/8% Industrial Development Revenue Bonds, Series B, City of Cookeville, Tennessee. +

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- 4.3 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.+
- 4.4 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.
- 4.5 Amendment to Rights Agreement dated August 1, 1996 was filed as Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- 4.6 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of \$25,000,000 was filed as Exhibit 4.9 to Company's Annual Report on Form 10-K for year ended December 31, 1992.
- 4.7 Loan Agreement in the amount of \$25,000,000 between the Company and Metropolitan Life Insurance Company dated November 12, 1992 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
- 4.8 Revolving Credit Agreement between the Company and First of America Bank - Michigan, N.A. in the amount of \$20,000,000 and dated August 22, 1995 was filed as Exhibit 4.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- 4.9 Credit Agreement dated as of November 26, 1997, among Flowserve Corporation, Bank of America National Trust and Savings Association as Agent and Letter of Credit Issuing Bank and the other Financial Institutions Party thereto. (filed herewith)
- 4.10 Material Subsidiary Guarantee, dated as of November 26, 1997, by BW/IP International, Inc. in favor of and for the benefit of Bank of America National Trust and Savings Association, as Agent. (filed herewith).

- 4.11 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.
- 4.12 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.
- 4.13 Guaranty, dated August 1, 1997 between Flowserve Corporation and ABN-AMRO Bank N.V. was filed as Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

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- 4.14 Credit Agreement, dated as of September 10, 1993, between BW/IP International B.V. and ABN/AMRO was filed as Exhibit 10.dd to BWIP's Annual Report on Form 10-K for the year ended December 31, 1993.
- 4.15 Note Agreement, dated as of November 15, 1996, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to \$30,000,000 principal amount of 7.14% Senior Notes, Series A, due November 15, 2006, and \$20,000,000 principal amount of 7.17% Senior Notes, Series B, due March 31, 2007, was filed as Exhibit 4.1 to BW/IP's Registration Statement on Form S-8 (Registration No. 333-21637) as filed February 12, 1997.
- 4.16 Note Agreement, dated as of April 15, 1992, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to \$50,000,000 principal amount of 7.92% Senior Notes due May 15, 1999, filed as Exhibit 4.a to BW/IP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.
- 10.1 The Duriron Company, Inc. Incentive Compensation Plan (the "Incentive Plan") for Senior Executives, as amended and restated effective January 1, 1994, was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993. \*\*
- 10.2 Amendment No. 1 to the Incentive Plan was filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995. \*\*
- 10.3 The Duriron Company, Inc. Supplemental Pension Plan for Salaried Employees was filed with the Commission as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987. \*\*
- 10.4 The Duriron Company, Inc. amended and restated Director Deferral Plan was filed as Attachment A to the Company's definitive 1996 Proxy Statement filed with the Commission on March 10, 1996. \*\*
- 10.5 Form of Change in Control Agreement between all executive officers and the Company was filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996. \*\*
- 10.6 The Duriron Company, Inc. 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.\*\*
- 10.7 Amendment #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.\*\*

10.8 Amendment #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.\*\*

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10.9 The Duriron Company, Inc. 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.\*\*

10.10 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.\*\*

10.11 The Duriron Company, Inc. Long-Term Incentive Plan (the "Long-Term Plan"), as amended and restated effective November 1, 1993 was filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.\*\*

10.12 Amendment No. 1 to the Long-Term Plan was filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.\*\*

10.13 The Duriron Company, Inc. 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.\*\*

10.14 The Duriron Company, Inc. 1989 Restricted Stock Plan (the "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.\*\*

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

10.16 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.\*\*

10.17 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.\*\*

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

10.19 The Company's Equity Incentive Plan as amended and restated effective July 21, 1995 was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.\*\*

10.20 Supplemental Pension Agreement between the Company and William M. Jordan dated January 18, 1993 was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.\*\*

10.21 1979 Stock Option Plan, as amended and restated April 23, 1991,

and Amendment #1 thereto dated December 15, 1992, was filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.\*\*

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- 10.22      Deferred Compensation Plan for Executives was filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.\*\*
- 10.23      Executive Life Insurance Plan of The Duriron Company, Inc. 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      Employee Protection Plan, as revised effective March 1, 1997 (which provides certain severance benefits to employees upon a change of control of the Company) was filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.\*\*
- 10.26      1997 Stock Option Plan was included as Exhibit A to the Company's 1997 Proxy Statement which was filed with the Commission on March 17, 1997.\*\*
- 10.27      Supplemental Executive Retirement Plan was filed as Exhibit 10.rrrr to BW/IP's Registration Statement on Form S-1 (Registration No. 33-45165) as filed February 18, 1992.\*\*
- 10.28      Amendment Number One to the Supplemental Executive Retirement Plan was filed as Exhibit 10.rr to BW/IP's Annual Report on Form 10-K for the year ended December 31, 1993.\*\*
- 10.29      Amendment to the BW/IP International, Inc. Supplemental Executive Retirement Plan was filed as Exhibit 10.nn to BW/IP's Annual Report on Form 10-K for the year ended December 31, 1994.\*\*
- 10.30      Amendment to the BW/IP International, Inc. Supplemental Executive Retirement Plan was filed as Exhibit 10.z to BW/IP's Annual Report on Form 10-K for the year ended December 31, 1995.\*\*
- 10.31      Form of Employment Agreement between the Company and certain executive officers (filed herewith).\*\*
- 10.32      Amendment No. 1 to the amended and restated Director Deferral Plan (filed herewith).\*\*
- 10.33      Amendment # 1 to the 1989 Restricted Stock Plan as amended and restated (filed herewith). \*\*
- 10.34      BW/IP International, Inc. 1997 Management Incentive Plan was filed as Exhibit 10.kk to BW/IP's Annual Report on Form 10-K for the year ended December 31, 1996.\*\*

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- 10.35      Employment Agreement, effective July 22, 1997, between the Company



and Bernard G. Rethore was filed as Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.\*\*

- 10.36 Employment Agreement, effective July 22, 1997, between the Company and William M. Jordan was filed as Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.\*\*
- 13.1 1997 Annual Report to Shareholders (filed herewith as part of this report to the extent incorporated herein by reference).
- 21.1 Subsidiaries of the Company (filed herewith).
- 23.1 Consent of Ernst & Young LLP (filed herewith).
- 23.2 Consent of Price Waterhouse LLP (filed herewith).
- 27.1 Financial Data Schedule submitted to the SEC in electronic format (filed herewith).

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"\*" 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". All filings of BW/IP incorporated by reference in this Annual Report on Form 10-K cover the periods prior to the Merger.

"+" Indicates that the document relates to a class of indebtedness that does not exceed 10% of the total assets of the Company and subsidiaries and that the Company will furnish a copy of the document to the Commission upon request.

"\*\*\*" Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K pursuant to Item 14(c) of this Form 10-K. Compensatory plans of BW/IP were assumed by the Company in accordance with the Agreement and Plan of Merger.

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#### 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 19th day of February 1998.

FLOWERVE CORPORATION  
(Registrant)

By: /s/ Bernard G. Rethore  
-----  
Bernard G. Rethore  
Chairman 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/ BERNARD G. RETHORE - - - - - Bernard G. Rethore	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 19, 1998
/s/ WILLIAM M. JORDAN - - - - - William M. Jordan	President, Chief Operating Officer and Director	February 19, 1998
/s/ RENEE J. HORNBAKER - - - - - Renee J. Hornbaker	Vice President and Chief Financial Officer (Principal Financial Officer)	February 19, 1998
/s/ CHARLES F. CARGILE - - - - - Charles F. Cargile	Corporate Controller (Principal Accounting Officer)	February 19, 1998
/s/ WILLIAM C. RUSNACK - - - - - William C. Rusnack	Director, Chairman of Audit/Finance Committee	February 19, 1998
/s/ DIANE C. HARRIS - - - - - Diane C. Harris	Director, Member Audit/Finance Committee	February 19, 1998
/s/ JAMES O. ROLLANS - - - - - James O. Rollans	Director, Member Audit/Finance Committee	February 19, 1998
/s/ R. ELTON WHITE - - - - - R. Elton White	Director, Member Audit/Finance Committee	February 19, 1998

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# FLOWSERVE CORPORATION

## INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

### ITEM 14(a) (1) AND (2)

	ANNUAL REPORT TO SHAREHOLDERS -----	ANNUAL REPORT ON FORM 10-K -----
Flowserve Corporation Consolidated Financial Statements		
Reports of Independent Auditors	38	F-2
Consolidated Balance Sheets at December 31, 1997 and 1996	20	
For the three years ended December 31, 1997:		
Consolidated Statements of Income	19	
Consolidated Statements of Shareholders' Equity	21	
Consolidated Statements of Cash Flows	22	
Notes to Consolidated Financial Statements	23-37	
Flowserve Corporation Financial Statement Schedules for the three years ended December 31, 1997		
Report of Independent Auditors on Financial Statement Schedules		F-3
Schedule II - Valuation and Qualifying Accounts		F-4

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

In our opinion, the consolidated balance sheet and the related consolidated statements of income and retained earnings and of cash flows of BW/IP, Inc. (not presented separately herein) present fairly, in all material respects, the financial position of BW/IP, Inc. and its subsidiaries at December 31, 1996 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 the opinion expressed above.

PRICE WATERHOUSE LLP

Los Angeles, California  
January 28, 1997

REPORT OF INDEPENDENT AUDITORS  
ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders  
Flowserve Corporation

We have audited the consolidated financial statements of Flowserve Corporation and subsidiaries as of December 31, 1997 and 1996, and for each of the three years in the period ending December 31, 1997, and have issued our report thereon dated February 20, 1998 appearing on page 38 of the 1997 Annual Report (which report and consolidated financial statements are incorporated by reference in this Form 10-K). Our audits also included the financial statement schedules listed in Item 14(a) of this Form 10-K. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. We did not audit the 1996 and 1995 financial statements of BW/IP, Inc., a wholly owned subsidiary, which statements reflect total assets constituting 49% of the related consolidated total as of December 31, 1996, and total revenues constituting 45% and 46% of the related totals for the years ended December 31, 1996 and 1995, respectively. We have been furnished with the report of other auditors with respect to Schedule 14(a) of BW/IP, Inc.

In our opinion, based on our audits and the report of other auditors, the financial statement schedules referred to above, when considered in relation to

the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Dallas, Texas

February 20, 1998

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FLOWSERVE CORPORATION  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
(DOLLARS IN THOUSANDS)

Column A ----- Description -----	Column B ----- Balance at beginning of year	Column C ----- Additions charged to earnings	Column D ----- Deductions from reserve	Column E ----- Balance at end of year
Year ended December 31, 1997:				
Allowance for doubtful accounts (a):	\$ 4,826 =====	\$ 2,458 =====	\$ 2,225 =====	\$ 5,059 =====
Year ended December 31, 1996:				
Allowance for doubtful accounts (a):	\$ 5,183 =====	\$ 1,786 =====	\$ 2,143 =====	4,826 =====
Year ended December 31, 1995:				
Allowance for doubtful accounts (a):	\$ 4,437 =====	\$ 2,650 =====	\$ 1,904 =====	5,183 =====
Year ended December 31, 1997:				
Inventory reserves (b):	\$ 13,716 =====	\$ 4,308 =====	\$ 619 =====	\$ 17,405 =====
Year ended December 31, 1996:				
Inventory reserves (b):	\$ 16,252 =====	\$ 860 =====	\$ 3,396 =====	13,716 =====
Year ended December 31, 1995:				
Inventory reserves (b):	\$ 13,759 =====	\$ 3,075 =====	\$ 582 =====	\$ 16,252 =====

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

(b) Deductions from reserve represent inventory written off.

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EXHIBIT  
NO.

DESCRIPTION

- 2.1 Agreement and Plan of Merger dated as of May 6, 1997, among the Company, Bruin Acquisition Corp. and BW/IP, Inc. ("BW/IP") was filed as Annex I to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.
- 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 with the Commission 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, indenture of mortgage and deed of trust, and guarantee agreement, all executed on June 1, 1978 in connection with 9-1/8% Industrial Development Revenue Bonds, Series A, City of Cookeville, Tennessee. +
- 4.2 Lease agreement, indenture of trust, and guaranty agreement, all executed on June 1, 1978 in connection with 7-3/8% Industrial Development Revenue Bonds, Series B, City of Cookeville, Tennessee. +
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- 4.3 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.+
- 4.4 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.
- 4.5 Amendment to Rights Agreement dated August 1, 1996 was filed as

Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

- 4.6 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of \$25,000,000 was filed as Exhibit 4.9 to Company's Annual Report of Form 10-K for year ended December 31, 1992.
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- 4.16 Note Agreement, dated as of April 15, 1992, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to \$50,000,000 principal amount of 7.92% Senior Notes due May 15, 1999, filed as Exhibit 4.a to BW/IP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.

- 10.1 The Duriron Company, Inc. Incentive Compensation Plan (the "Incentive Plan") for Senior Executives, as amended and restated effective January 1, 1994, was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993. \*\*
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=====

CREDIT AGREEMENT

Dated as of November 26, 1997

among

FLOWSERVE CORPORATION

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION

as Agent,

and

Letter of Credit Issuing Bank

and

THE OTHER FINANCIAL  
INSTITUTIONS PARTY HERETO

Arranged by  
BANCAMERICA ROBERTSON STEPHENS

[BANK OF AMERICA LOGO]

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## CREDIT AGREEMENT

This CREDIT AGREEMENT dated as of November 26, 1997 is entered into by and among FLOWSERVE CORPORATION, a New York corporation ("Borrower"), each lender whose name is set forth on the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement (collectively, the "Banks" and individually, a "Bank"), Bank of America National Trust and Savings Association, as Agent, and the Issuing Bank.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

SECTION 1  
DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms. As used in this Agreement, the following terms have the meanings set forth below:

"Absolute Rate" means a fixed rate of interest for a Competitive Loan determined from an Absolute Rate Bid that has been accepted by Borrower.

"Absolute Rate Bid" has the meaning set forth in Section 2.3(b).

"Accepted Bank" has the meaning specified in Section 2.7.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided that, in any event, any Person that owns, directly or indirectly, 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation that has more than 100 record holders of such securities, or 10% or more of the partnership or other ownership interests of any other Person that has more than 100 record holders of such interests, will be deemed to control such corporation, partnership or other Person.

"Agent" means BofA, when acting in its capacity as the Agent under any of the Loan Documents, or any successor Agent.

"Agent's Office" means the Agent's address and, as appropriate, account as set forth on Schedule 10.6, or such other address or account as the Agent hereafter may designate by written notice to Borrower and the Banks.

"Agent-Related Persons" means the Agent (including any successor agent), together with their respective Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

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"Agreement" means this Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Applicable Amount" means:

(a) for any Pricing Period when Borrower has no Debt Ratings, the per annum amounts set forth below under Applicable Amount opposite the applicable Ratio of Consolidated Funded Debt to Total Capitalization; provided, however, that until the Agent's receipt of the first Compliance Certificate after the Closing Date, such interest rates, fees and commissions shall be those indicated for a ratio of Consolidated Funded Debt to Total Capitalization of greater than or equal to 0.30 but less than 0.40:

(a) Pricing Based on Ratio of Consolidated Funded Debt to Total Capitalization

-----

Applicable Amount  
(in basis points per annum)

Ratio of Consolidated  
Funded Debt to Total  
Capitalization

	Facility Fee	Financial Letters of Credit ----- Offshore Rate +	Base Rate +
<0.30	7.5	20.0	0
> or = 0.30 but < 0.40	10.0	22.5	0
> or = 0.40 but < 0.50	12.5	30.0	0
> or = 0.50	15.0	45.0	0

(b) for any Pricing Period when Borrower has Debt Rating(s), the per annum amounts set forth below under Applicable Amount opposite the applicable Debt Ratings:

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(b) Pricing Based on Debt Ratings

	Applicable Amount (in basis points per annum)		
Debt Ratings	Facility Fee	Financial Letters of Credit ----- Offshore Rate +	Base Rate +
A/A2 or better	6.5	16.0	0
A-/A3	7.5	15.0	0
BBB+/Baa1	8.5	16.5	0
BBB/Baa2	11.0	21.5	0
BBB-/Baa3	13.5	26.5	0
BB+/Ba1 or lower	15.0	45.0	0

As used in this definition:

"Applicable Amount Change Date" means:

(a) when the Applicable Amount is based upon the Ratio of Consolidated Funded Debt to Total Capitalization, the last date of the period covered by the financial statements delivered by Borrower pursuant to Section 6.1 reflecting such change in the ratio of Consolidated Funded Debt to Total

Capitalization; provided that there shall not be a change in the Applicable Amount for any Offshore Rate Loan, the Interest Period of which ends prior to date of delivery of such financial statements; and

(b) when the Applicable Amount is or will be based upon Debt Rating(s), any date upon which the Agent has received evidence reasonably satisfactory to it of new or changed Debt Rating(s).

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"Debt Rating" means, as of any date of determination, the rating of Borrower's senior unsecured long-term debt, as determined by either S&P or Moody's; provided, that if Borrower's senior unsecured long-term debt is rated by both of such rating agencies, and there is a "split" rating, then the higher of such credit ratings shall be used to determine the Applicable Margin unless the split in credit ratings is more than one level, in which case the level one level higher than the lower rating shall be used to determine the Applicable Margin.

"Pricing Period" means (a) the period commencing on the Closing Date and ending on the first Applicable Amount Change Date to occur thereafter and (b) each subsequent period commencing on each Applicable Amount Change Date and ending the day prior to the next Applicable Amount Change Date.

"Applicable Taxes" means any and all present or future taxes (including documentary taxes), levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto imposed by a Governmental Authority relating to any Loan Document, including any liabilities imposed on amounts paid by Borrower to indemnify or reimburse any Person for such amounts, excluding Bank Taxes.

"Approved Offshore Currency" means Canadian Dollars, Pounds Sterling, Deutsche Marks, and Japanese Yen and any other currency that in the opinion of all Banks is freely traded in the offshore interbank foreign exchange markets and is freely transferable and freely convertible into Dollars and in which dealings in deposits are carried out on the London interbank market.

"Arranger" means BancAmerica Robertson Stephens.

"Attorney Costs" means and includes all fees and disbursements of any law firm or other external counsel and the allocated cost of internal legal services and all disbursements of internal counsel.

"Availability Period" means the period commencing on the Closing Date and ending on the day before the Maturity Date.

"Bank" means each lender from time to time party hereto and the Issuing Bank.

"Bank Taxes" means, in the case of each Bank, the Agent and each Eligible Assignee, and any Affiliate, the Issuing Bank or Lending Office thereof: (a) taxes imposed on or measured in whole or in part by its overall net income, gross income or gross receipts or capital and franchise taxes imposed on it, by (i) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Lending Office or (ii) any jurisdiction (or political subdivision thereof) in which it is "doing business" (unless it would not be doing business in such jurisdiction (or political subdivision thereof) absent the transactions contemplated hereby), (b) any withholding taxes or other taxes based on gross income imposed by the United States of America (other than withholding taxes and taxes based on gross



income resulting from or attributable to any change in any law, rule or regulation or any change in the interpretation or administration of any law, rule or regulation by any Governmental Authority)

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or (c) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 10.22, to the extent such forms are then required by applicable Laws.

"Base Rate" means, for any day, the higher of: (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by BofA in San Francisco, California, as its "reference rate." The "reference rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.

"Base Rate Loan" means a Loan which bears interest based on the Base Rate.

"BofA" means Bank of America National Trust and Savings Association, a national banking association.

"Borrower" means Flowserve Corporation, a New York corporation, formed by the merger of BW/IP International, Inc. and Durco International Inc.

"Borrowing" and "Borrow" each mean a borrowing hereunder consisting of Loans of the same type made on the same day and, other than in the case of Base Rate Loans, having the same Interest Period.

"Borrowing Date" means the date that a Loan is made by the Banks, which shall be a Business Day.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City or San Francisco are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means any such day on which dealings are carried on in the London interbank market in Dollars or, with respect to Offshore Currency Loans, any such day on which dealings carried on in the London interbank market in the Approved Offshore Currency of such Offshore Currency Loan.

"Capital Lease Obligation" means, with respect to any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet or for which the amount of the assets and liabilities thereunder, if so capitalized, should be disclosed in a note to such balance sheet, the amount of the liability which should be so capitalized or disclosed.

"Cash Equivalents" means:

(a) cash;

(b) Securities with maturities of one year or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof or Securities of comparable credit quality issued by foreign governments;

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(c) bank instruments, each with maturities of one year or less from the date of acquisition of any Bank or any other commercial bank having capital and surplus in excess of \$300,000,000 and having a rating on commercial paper issued by such commercial bank of at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks) or a comparable credit in a foreign country;

(d) commercial paper of an issuer rated at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks);

(e) repurchase agreements fully collateralized by any obligation referred to above obligating any Bank or any other commercial bank having capital and surplus in excess of \$300,000,000 and having a rating on commercial paper issued by such commercial bank of at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks) or a comparable credit in a foreign country to repurchase such obligation not later than 90 days after the purchase of such obligation;

(f) Securities of Borrower and its Subsidiaries held in their respective treasuries;

(g) preferred stock commonly known as Dutch Auction Preferred Stock, Capital Market Preferred Stock, Remarketable Preferred Stock, Variable Rate Preferred Stock or other similar terms; provided that in each case such preferred stock has the highest rating given by S&P or Moody's (or if at such time neither is issuing ratings, then the highest rating of such other nationally recognized rating agency as shall be approved by Requisite Banks); and

(h) money market programs of investment companies regulated under the Investment Company Act of 1940, as amended, which, at the time of acquisition by Borrower or a Subsidiary, if rated, are (or if such money market programs are not rated the underlying investments of which are) rated A-1 by S&P or P-1 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks); provided that such money market programs invest only in investments of the type described in this definition.

"Change of Control" means the acquisition by any Person, or two or more Persons acting in concert of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of 40% or more of the outstanding shares of voting stock of Borrower.

"Closing Date" means the time and Business Day on which the conditions set forth in Section 4.1 are satisfied or waived. The Agent shall notify Borrower and the Banks of the date that is the Closing Date.

"Code" means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

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"Commercial Letter of Credit" means any letter of credit issued for the account of Borrower for the purpose of providing the principal payment mechanism in connection with the purchase of goods by Borrower or any of its

Subsidiaries in the ordinary course of business.

"Commitment" means, for each Bank, the amount set forth as such opposite such Bank's name on Schedule 2.1, as such amount may be reduced pursuant to the terms of this Agreement (collectively, the "combined Commitments"). The respective Pro Rata Shares of the Banks are set forth in Schedule 2.1.

"Committed Loan" means a Loan of any type made to Borrower by any Bank in accordance with its Pro Rata Share pursuant to Section 2.1.

"Committed Loan Note" means the promissory note made by Borrower to a Bank evidencing Committed Loans made by such Bank, substantially in the form of Exhibit C, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted (collectively, the "Committed Loan Notes").

"Competitive Bid" means (a) a written bid delivered to the Agent to provide Competitive Loans, substantially in the form of Exhibit E-2, duly completed and signed by a Bank, or (b) a telephonic bid made by a Bank to the Agent to provide Competitive Loans including the substance of Exhibit E-2, promptly confirmed by a written Competitive Bid.

"Competitive Bid Maximum" means the maximum amount(s) a Bank is willing to bid under a Competitive Bid for all Competitive Loans included therein and/or individual Competitive Loans included therein.

"Competitive Bid Request" means a written request, or telephonic request followed by a written request substantially in the form of Exhibit E-1, duly completed and signed by a Responsible Officer.

"Competitive Loan" means an Loan denominated in Dollars made by any Bank not determined by that Bank's Pro Rata Share pursuant to Section 2.3.

"Competitive Loan Designated Bidder" means (a) an Eligible Assignee or (b) a special purpose corporation that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and that issues (or the parent of which issues) commercial paper rated at least "Prime-1" (or the then equivalent grade) by Moody's or "A-1" (or the equivalent grade) by S&P that, in either case, (x) is organized under the laws of the United States or any state thereof, (y) shall have been designated as such pursuant to Section 2.3(m) and (z) shall have been consented to by Borrower, which consent shall not be unreasonably withheld.

"Competitive Loan Minimum Amount" means, with respect to each of the following actions with respect to each type of Competitive Loan, the following amounts set forth opposite such action under such type of Competitive Loan (a reference to "Competitive Loan Minimum Amount" shall also be deemed a reference to the multiples in excess thereof set forth on the last line below):

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Type of Action -----	Absolute Rate Minimum -----	Offshore Rate Minimum -----
Competitive Bid Requests	\$5,000,000	\$1,000,000
Competitive Bids	\$1,000,000	\$1,000,000
Competitive Loans	\$1,000,000	\$1,000,000

Multiples in excess  
of above amounts

\$1,000,000

\$1,000,000

"Competitive Loan Note" means the promissory note made by Borrower in favor of a Bank to evidence the Competitive Loans made by that Bank, substantially in the form of Exhibit E-3, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted (collectively, the "Competitive Loan Notes").

"Competitive Loan Requisite Time" means, with respect to any of the actions listed below, the time set forth opposite such action (all times are California time):

Action -----	Time -----	Date	
		Absolute Rate Bid -----	Offshore Rate Bid -----
Delivery of Competitive Bid Request	9:00 a.m.	1 Business Day prior to Borrowing Date	4 Business Days prior to Borrowing Date
Delivery of Competitive Bid	7:30 a.m.	Borrowing Date	3 Business Days prior to Borrowing Date
Bid by BofA	7:15 a.m.	Borrowing Date	3 Business Days prior to Borrowing Date
Borrower's acceptance of Competitive Bids	8:30 a.m.	Borrowing Date	3 Business Days prior to Borrowing Date

"Compliance Certificate" means a certificate in the form of Exhibit B, properly completed and signed by a Responsible Officer.

"Consolidated EBITDA" means, for any period, (a) the sum of (i) Consolidated Net Income, plus (ii) interest expense (including any interest expense or discount of Borrower or any of its Subsidiaries associated with any sale or other financing of accounts permitted under Section 7.13), plus (iii) depreciation expense, plus (iv) amortization expense of goodwill and financing costs, plus (v) extraordinary losses, plus (vi) Federal, state, local and foreign income tax expense, plus (vii) other non-cash extraordinary charges that could never be converted to cash to the extent deducted from Consolidated Net Income, plus (viii) Durco Integration and

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Restructuring Expenses to the extent deducted from Consolidated Net Income, minus (b) extraordinary gains on asset sales, minus (c) noncash extraordinary income; all of the foregoing shall be on a consolidated basis for Borrower and its Subsidiaries.

"Consolidated Funded Debt," means, as of any date, the sum of (a) items (a), (b), (c) and (d) of the definition of Debt plus (b) all drawn but not reimbursed letters of credit (including Letters of Credit issued hereunder) and, without duplication, plus (c) the greater of aggregate amount of liability assumed and net cash proceeds received with respect to outstanding accounts receivables subject to a Receivables Program in a sale or other financing of accounts permitted by Section 7.13, all on a consolidated basis for Borrower and its Subsidiaries.

"Consolidated Net Income" means, for any period, the net income of Borrower and its Subsidiaries on a consolidated basis for such period determined in accordance with GAAP.

"Consolidated Tangible Net Worth" of any Person means the consolidated shareholders' equity of such Person and its consolidated Subsidiaries determined in accordance with GAAP (but without taking into account any adjustments for the effects of foreign currency translation

pursuant to Statement No. 52 of the Financial Accounting Standards Board, or any similar statement issued in substitution therefor), minus, without duplication, the carrying value of goodwill, debt issuance costs and any covenant not to compete, capitalized organizational expenses, intellectual property and licenses therefor and rights therein, and other similar intangibles, and any other items which are treated as intangibles in conformity with GAAP (except for prepaid expenses).

"Consolidated Total Assets" means, as of any date of determination, all assets that should be reflected as assets on a consolidated balance sheet of Borrower and its Subsidiaries on such date prepared in accordance with GAAP.

"Contingent Obligation", as applied to any Person, means any direct or indirect liability, contingent or otherwise, of the Person (a) with respect to any Debt, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (other than for collection or deposit in the ordinary course of business), co-made, or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable, including without limitation, any such obligation for which that Person is in effect liable through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet item, level of income or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation, services or lease regardless of the non-delivery or non-furnishing thereof, in any case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof; the amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported and (b) net obligations under any Swap Agreement in an

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amount equal to (i) if such Swap Agreement has been closed out, the termination value thereof, or (ii) if such Swap Agreement has not been closed out, the mark-to-market value thereof determined on the basis of readily available quotations provided by any recognized dealer in such Swap Agreements.

"Continuation" and "Continue" each mean, with respect to any Committed Loan other than a Base Rate Loan, the continuation of such Loan as the same type of Loan in the same principal amount and in the same currency, but with a new Interest Period and an interest rate determined as of the first day of such new Interest Period. Continuations must occur on the last day of the Interest Period for such Loan.

"Conversion" and "Convert" each mean, with respect to any Committed Loan, the conversion of one type of Loan in one currency into another type of Loan in the same currency. With respect to Loans other than Base Rate Loans, Conversions must occur on the last day of the Interest Period for such Loan.

"Contractual Obligation" means, as to any Person, any provision of any outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its property is bound.

"Debt" means, without duplication, (a) indebtedness for borrowed

money, (b) obligations evidenced by bonds (other than performance bonds), debentures, notes or other similar instruments, (c) obligations to pay the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business and not more than 60 days past due or being contested in good faith by appropriate proceedings), (d) Capital Lease Obligations, (e) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (a) through (d) above, and (f) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect affecting the rights of creditors generally.

"Default" means any event that, with the giving of any applicable notice or passage of time specified in Section 8.1, or both, would be an Event of Default.

"Default Rate" means an interest rate equal to the Base Rate plus the Applicable Amount, if any, applicable to the Base Rate plus 2%, to the fullest extent permitted by applicable Laws.

"Designated Deposit Account" means a deposit account to be maintained by Borrower with BofA, as from time to time designated by Borrower by written notification to the Agent.

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"Disposition" means the sale, transfer, or other disposition of any asset of Borrower or any of its Subsidiaries, including without limitation any sale, assignment, pledge, hypothecation, transfer or other disposal with or without recourse of any notes or accounts receivable or any rights and claims associated therewith.

"Dollars" or "\$" means United States dollars.

"Dollar Equivalent" means the equivalent in Dollars of the applicable currency calculated at the Spot Rate as of (a) the date of any Extension of Credit, (b) the last Business day of each month, (c) the date any payment is made with respect to any Obligation denominated in an Approved Offshore Currency, and (d) any date selected from time to time by the Agent in its sole discretion or at the direction of the Requisite Banks.

"Durco Merger" means the merger of BW/IP, Inc. and Borrower pursuant to the Agreement and Plan of Merger dated as of May 6, 1997 among Durco International Inc., Bruin Acquisition Corp. and BW/IP, Inc.

"Durco Integration and Restructuring Expenses" means integration expenses incurred by Borrower in connection with the Durco Merger in an amount not exceeding (a) \$30,000,000 in the fourth Fiscal Quarter of 1997 and (b) an aggregate of \$70,000,000 during Fiscal Years 1998, 1999 and 2000, in each case to the extent deducted from Consolidated Net Income.

"Dutch Facility" means the unsecured Dutch Guilder 50,000,000 Credit Agreement, dated July 5, 1991, as amended, between BW/IP International B.V. and ABN AMRO Bank N.V. (formerly Algemene Bank Nederland N.V.) and the guaranty executed and delivered in connection therewith by Borrower.

"Eligible Assignee" means (a) a financial institution organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000, provided that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Bank, (ii) a Subsidiary of a Person of which a Bank is a Subsidiary, or (iii) a Person of which a Bank is a Subsidiary and (d) another Bank.

"Environmental Law" means any and all statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions of any federal, state or local governmental authority within the United States or any State or Territory thereof and which relate to the environment or the release of any materials into the environment.

"Equity Proceeds" means, as of any date of determination, the aggregate amount of the net proceeds received by Borrower from the sale or sales of, or capital contributions with respect to, its common stock, preferred stock or other capital stock or rights, options or warrants

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therefor, after deduction of costs, discounts and commissions incurred in connection with such sale or sales, to such date of determination.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person who for purposes of Title IV of ERISA is a member of Borrower's controlled group, or under common control with Borrower, within the meaning of Section 414 of the Code and the regulations promulgated and rulings issued thereunder.

"ERISA Event" means (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with respect thereto has been waived by the PBGC; (ii) the provision by the administrator of any Pension Plan of a notice of intent to terminate such Pension Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (iii) the cessation of operations at a facility in the circumstances described in Section 4068(f) of ERISA; (iv) the withdrawal by Borrower or an ERISA Affiliate from a Multiemployer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (v) the failure by Borrower or any ERISA Affiliate to make a payment to a Pension Plan required under Section 302(f)(1) of ERISA, which Section imposes a lien for failure to make required payments; (vi) the adoption of an amendment to a Pension Plan requiring the provision of security to such Pension Plan, pursuant to Section 307 of ERISA; or (vii) the institution by the PBGC of proceedings to terminate a Pension Plan, pursuant to Section 4042 of ERISA, or the occurrence of any event or condition which, in the reasonable judgment of Borrower, might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, a Pension Plan.

"Event of Default" has the meaning provided in Section 8.1.

"Excess Net Proceeds" has the meaning provided in Section 7.6(g).

"Existing Credit Agreements" means (a) the Credit Agreement dated

as of December 1, 1995 among BW/IP International, Inc., the lenders named therein and Citicorp USA, Inc., as agent, as amended to the date hereof, and (b) the Credit Agreement dated as of December 6, 1996 among The Duriron Company, Inc., the lenders named therein and National City Bank, as agent, as amended to the date hereof.

"Extension of Credit" means (a) the Borrowing of any Loans, (b) the Conversion or Continuation of any Loans or (c) the issuance, renewal, increase continuation, amendment or other credit action with respect to any Letter of Credit, including the Banks acquiring a participation in such Letters of Credit (collectively, the "Extensions of Credit").

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so

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published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Agent.

"Financial Standby Letter of Credit" means any Standby Letter of Credit that is not a Performance Standby Letter of Credit.

"Fiscal Quarter" means the fiscal quarter of Borrower consisting of a three-month fiscal period ending on each March 31, June 30, September 30 and December 31.

"Fiscal Year" means the fiscal year of Borrower consisting of a twelve-month period ending on each December 31.

"FRB" means the Board of Governors of the Federal Reserve System or any governmental authority succeeding to its functions.

"Generally Accepted Accounting Principles" means, as of any date of determination, accounting principles (a) set forth as generally accepted in then currently effective Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants, (b) set forth as generally accepted in then currently effective Statements of the Financial Accounting Standards Board or (c) that are then approved by such other entity as may be approved by a significant segment of the accounting profession in the United States of America. The term "consistently applied," as used in connection therewith, means that the accounting principles applied are consistent in all material respects with those applied at prior dates or for prior periods.

"Governmental Authority" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, central bank or comparable authority, authority, board, bureau, commission, department, instrumentality or public body, or (c) any court or administrative tribunal of competent jurisdiction.

"Increase Date" has the meaning specified in Section 2.7.

"Increased Commitment Acceptance" means an acceptance of a Proposed Increased Commitment entered into by a Bank and accepted by the Agent, in substantially the form of Exhibit G.



"Increase Remainder" has the meaning specified in Section 2.7.

"Interest Payment Date" means, (a) with respect to any Base Rate Loan, the last Business day of each calendar quarter and the Maturity Date, and (b) with respect to any other type of Loan, (i) any date that such Loan is prepaid in whole or in part, (ii) the last day of each Interest Period applicable to, or the maturity of, such Loan; provided, however, that if any Interest Period or the maturity of any such Loan exceeds three months or 90 days, the date(s) that fall, as applicable, three, six or nine months, or 90, 180 or 270 days, respectively, after the

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beginning of such Interest Period, shall also be Interest Payment Dates, and (iii) the Maturity Date.

"Interest Period" means, as to any Committed Loans other than Base Rate Loans, the period commencing on the date specified by Borrower in its Request for Extension of Credit and ending one, two, three or six (or if available to all Banks, 12 months) thereafter (as selected by Borrower in the Request for Extension of Credit relating thereto; provided that:

(a) The first day of any Interest Period shall be a Business Day;

(b) Any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, in the case of an Offshore Rate Loan, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; and

(c) No Interest Period shall extend beyond the Maturity Date.

"Investment", as applied to any Person means any direct or indirect purchase or other acquisition by that Person of, or a beneficial interest in, stock or other Securities of any other Person, or any direct or indirect loan, advance (other than advances to employees or consultants for moving and travel expenses, drawing accounts and similar expenditures in the ordinary course of business) or capital contribution by that Person to any other Person, including all Debt and accounts receivable from that other Person which are not current assets or did not arise from sales to that other Person in the ordinary course of business. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"IRS" means the Internal Revenue Service.

"Issuing Bank" means Bank of America National Trust and Savings Association.

"Joint Venture" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership or other legal form; provided that in no event shall any corporate Subsidiary of any Person be considered to be a Joint Venture to which such Person is a party.

"Laws" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents, including without limitation the interpretation thereof by any Governmental Authority charged with the enforcement thereof.

"Lending Office" means, as to any Bank, the office or offices of

such Bank specified as its "Lending Office" or "Domestic Lending Office" or "Offshore Lending Office", as the case may be, on Schedule 10.6, or such other office or offices as such Bank may from time to time notify Borrower and the Agent.

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"Letter of Credit" means any of the standby letters of credit issued by the Issuing Bank hereunder, either as originally issued or as the same may be supplemented, amended, renewed or extended.

"Letter of Credit Application" means an application for issuances of, or amendments to, letters of credit as shall at any time be in use at the Issuing Bank.

"Letter of Credit Usage" means, as at any date of determination, the undrawn face amount of outstanding Letters of Credit plus the aggregate amount of all drawings under the Letters of Credit honored by the Issuing Bank and not theretofore reimbursed or converted into Committed Loans.

"Leverage Ratio" means as of any date of determination, the ratio of (a) Consolidated Funded Debt as of such date to (b) Consolidated EBITDA for the four Fiscal Quarters ending on such date.

"Lien" means any lien, mortgage, pledge, security interest, charge, encumbrance, easement, exception or assessment of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and, with respect to an asset or assets that are material, any agreement to give any security interest in the future).

"Loan" means any advance made or to be made by any Bank to Borrower as provided in Section 2, and includes each Committed Loan and Competitive Loan.

"Loan Documents" means, collectively, this Agreement, the Notes, the Letters of Credit, the Material Subsidiary Guaranty, any Request for Extension of Credit, any Letter of Credit Application, any Compliance Certificate and any other agreements of any type or nature hereafter executed and delivered by Borrower or any of its Subsidiaries or Affiliates to the Agent, the Issuing Bank or to any Bank in any way relating to or in furtherance of this Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Long-Term Debt" means, as of any date of determination, senior, unsecured debt securities of Borrower with a scheduled maturity in excess of twelve months from such determination date.

"Material Adverse Effect" means a material adverse effect, individually or in the aggregate, upon (i) the business, operations, properties, prospects, assets or condition (financial or otherwise) of Borrower and its Subsidiaries, taken as a whole, or (ii) the financial ability of Borrower and its Subsidiaries, taken as a whole, or otherwise Borrower or any Subsidiary (if a party thereto) to perform or of the Banks to enforce the Obligations under the Loan Documents.

"Material Subsidiary" means any domestic Subsidiary of Borrower having (a) Consolidated Total Assets which account 10% or more of the Consolidated Total Assets of Borrower and its Subsidiaries, or (b) revenue which is 10% or more of the total revenue of Borrower and its Subsidiaries on a consolidated basis, in each case determined based upon the most recent financial statements delivered pursuant to Section 6.1.

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"Material Subsidiary Guaranty" means the Material Subsidiary Guaranty substantially in the form of Exhibit F, as amended, supplemented, restated or otherwise modified from time to time.

"Maximum Permitted Combined Commitments" means \$200,000,000; provided that at any time the combined Commitments are reduced in accordance with Section 2.6, the Maximum Permitted Combined Commitments shall be reduced by the aggregate amount of such reduction of the combined Commitments.

"Maturity Date" means the earlier of (a) November 1, 2002, and (b) the date of termination in whole of the Commitments pursuant to Section 2.6 or 8.2.

"Minimum Amount" means, with respect to each of the following actions, the following amounts set forth opposite such action (a reference to "Minimum Amount" shall also be deemed a reference to the multiples in excess thereof set forth below):

Type of Action -----	Minimum Amount -----	Minimum Multiples in excess of Minimum Amount -----
Borrowing of, prepayment of or Conversion into, Base Rate Loans	\$ 500,000	\$ 500,000
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Rate Loans	\$ 1,000,000	\$ 1,000,000
Reduction in Commitments	\$ 1,000,000	\$ 500,000
Increase in Commitments	\$10,000,000	\$10,000,000
Assignments	\$10,000,000	

"Minority Interest Subsidiary Debt" means the portion of the Debt of a Subsidiary of Borrower which is allocable to third-party owners of the capital stock of such Subsidiary based on the ownership interest of such third party owners in relation to the ownership interests of Borrower and its Subsidiaries.

"Moody's" means Moody's Investors Service, Inc.

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"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which Borrower or any ERISA Affiliate of Borrower is making, or is obligated to make, contributions or has within any of

the preceding five plan years made or accrued an obligation to make contributions.

"Net Proceeds" means, with respect to any Disposition, the gross sales proceeds received by Borrower and its Subsidiaries from such Disposition (including cash, property and the assumption by the purchaser of any liability of Borrower or its Subsidiaries) net of brokerage commissions, legal expenses and other transactional costs payable by Borrower and its Subsidiaries with respect to such Disposition and net of an amount determined in good faith by Borrower to be the estimated amount of income taxes payable by Borrower attributable to such Disposition.

"New Commitment Acceptance" means an acceptance of a Proposed New Commitment entered into by an Accepted Bank and accepted by the Agent, in substantially the form of Exhibit H hereto.

"Non-Hostile Acquisition" means an acquisition (whether by purchase of capital stock or assets, merger or otherwise) which has been approved by resolutions of the Board of Directors of the Person being acquired or by similar action if the Person is not a corporation and as to which such approval has not been withdrawn.

"Non-Recourse Debt" means, as applied to any Receivables Program, Debt under the terms of which no personal recourse may be had against Borrower or any of its Subsidiaries for the payment of the principal of or interest or premium on such Debt solely as a result of a default by one or more account debtors in the payment of any accounts receivable included in such Receivables Program.

"Notes" means, collectively, the Committed Loan Notes and the Competitive Loan Notes.

"Notice of Assignment and Acceptance" means a Notice of Assignment and Acceptance substantially in the form of Exhibit D.

"Obligations" means all loans, advances, debts, reimbursement obligations, liabilities, obligations, covenants and duties owing by Borrower or any of its Subsidiaries to any Bank, the Agent, the Issuing Banks, any affiliate of any Bank or the Agent, or any Person entitled to indemnification pursuant to Section 10.11, of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, arising under this Agreement or under any guaranties executed by any of Borrower's Subsidiaries in favor of the Agent on behalf of the Banks, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, letter of credit transactions or bankers' acceptance transactions or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements and any other sum chargeable to Borrower or any of its

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Subsidiaries under this Agreement or any guaranties executed by any of Borrower's Subsidiaries in favor of the Agent on behalf of the Banks.

"Offshore Base Rate" has the meaning set forth in the definition of Offshore Rate.

"Offshore Rate Bid" has the meaning set forth in Section 2.3(b).

"Offshore Currency Loan" means a Loan denominated in an Approved Offshore Currency that bears interest based on the Offshore Rate.

"Offshore Currency Overnight Rate" means, for any day, the rate of interest per annum at which overnight deposits in an Approved Offshore Currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by BofA's principal office in London to major banks in the London or other applicable offshore interbank market.

"Offshore Rate" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/16th of 1%) determined by the Agent as follows:

$$\text{Offshore Rate} = \frac{\text{Offshore Base Rate}}{1.00 - \text{EURODOLLAR RESERVE PERCENTAGE}}$$

Where,

"Eurodollar Reserve Percentage" means for any day for any Interest Period the maximum reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day (whether or not applicable to any Bank) under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"); and

"Offshore Base Rate" means the rate of interest per annum determined by the Agent to be the arithmetic mean (rounded upward to the next 1/16th of 1%) of the rates of interest per annum notified to the Agent by BofA as the rate of interest at which deposits in Dollars or the applicable Approved Offshore Currency, as the case may be, in (a) in the case of a Committed Loans, an amount approximately equal to BofA's Offshore Rate Loan comprising part of such Borrowing, and (b) in the case of a Competitive Loans, in an amount substantially equal to the aggregate amount of such Competitive Loans requested by the Borrower, and having a maturity comparable to the Interest Period of such Loans would be offered to major banks in the London or interbank market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Offshore Rate Loan" means a Committed Loan that bears interest based on the Offshore Rate or a Competitive Loan that bears interest based on the Offshore Base Rate.

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"Opinion of Counsel" means the favorable written legal opinion of John M. Nanos, Esq., Sr. Associate General Counsel of Borrower and its Subsidiaries, substantially in the form of Exhibit J, together with copies of all factual certificates and legal opinions upon which such counsel has relied.

"Outstanding Obligations" means, as of any date, and giving effect to making any Extensions of Credit requested on such date and all payments, repayment and prepayments made on such date, the sum of (a) the aggregate outstanding principal of all Loans, and (b) all Letter of Credit Usage.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, which is subject to Title IV of ERISA and is sponsored or maintained by Borrower or any ERISA Affiliates or to which Borrower or any ERISA Affiliate

contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan

"Performance Standby Letter of Credit" means a Standby Letter of Credit covering potential default by the Person for whose account the Standby Letter of Credit is issued of performance-related, non-financial contractual obligations. By way of example, and not by limitation, performance-related contractual obligations include construction, bid or performance bonds, performance warranties payable upon breach, releases of funds retained to cover performance and refunds of advance payments on contractual obligations where default of a performance related contract has occurred.

"Person" means any individual or entity, including a trustee, corporation, limited liability company, general partnership, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, firm, joint venture, Governmental Authority, or other entity.

"Plan" means an employee benefit plan, as defined in Section 3(3) of ERISA, which Borrower or any ERISA Affiliate sponsors or maintains, or to which Borrower or any ERISA Affiliate makes, is making or is obligated to make, contributions; and includes any Pension Plan or Multiemployer Plan.

"Proposed Combined Commitments Increase" has the meaning specified in Section 2.7.

"Proposed Increased Commitment" has the meaning specified in Section 2.7.

"Proposed New Commitment" has the meaning specified in Section 2.7.

"Pro Rata Share" means, with respect to each Bank, the percentage of the combined Commitments set forth opposite the name of that Bank on Schedule 2.1.

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"Quarterly Payment Date" means each June 30, September 30, December 31 and March 31.

"Receivables Program" has the meaning specified in Section 7.13.

"Request for Extension of Credit" means a written request substantially in the form of Exhibit A duly completed and signed by a Responsible Officer, or a telephonic request followed by such a written request, in each case delivered to the Agent by Requisite Notice.

"Requisite Banks" means (a) as of any date of determination if the Commitments are then in effect, Banks having in the aggregate 51% or more of the combined Commitments then in effect and (b) as of any date of determination if the Commitments have then been terminated and there are Loans and Letter of Credit Usage outstanding, Banks holding Loans aggregating 51% or more of the aggregate outstanding principal amount of the Loans and Letter of Credit Usage.

"Requisite Notice" means, unless otherwise provided herein, (a) irrevocable written notice to the intended recipient or (b) irrevocable telephonic notice to the intended recipient, promptly followed by a written notice to such recipient. Such notices shall be (i) delivered or made to such recipient at the address, telephone number or facsimile number set forth on Schedule 10.6 or as otherwise designated by such recipient by Requisite Notice to the Agent and (ii) if made by Borrower, given or made by a Responsible

Officer. Any written notice shall be in the form, if any, prescribed in the applicable section herein and may be given by facsimile provided such facsimile is promptly confirmed by a telephone call to such recipient.

"Requisite Time" means, with respect to any of the actions listed below, the time set forth opposite such action on or prior to the date (the "relevant date") set forth below (all times are California time) :

Action -----	Time -----	Date of Action -----
Delivery of Request for Extension of Credit for, or notice for:		
Borrowing of, prepayment of, or Conversion into, Base Rate Loans:	8:00 a.m.	Same date as such Borrowing, prepayment or Conversion
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Rate Loans (other than Offshore Currency Loans)	10:00 a.m.	3 Business Days prior to such Borrowing, prepayment or Conversion
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Currency Loans	10:00 a.m.	3 Business Days prior to such Borrowing, prepayment or Conversion action
Letter of Credit action	10:00 a.m.	5 Business Days prior to such action

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Voluntary reduction or termination of Commitments	10:00 a.m.	2 Business Days prior to such reduction or termination
Borrower's request for increase in Commitments	11:00 a.m.	30 days prior to Increase Date
Bank's response to request for increase in Commitments	11:00 a.m.	5 days prior to Increase Date
Bank's commitment to Increase Remainder	11:00 a.m.	1 Business Day prior to Increase Date
Funds made available by Banks or Borrower to Agent	11:00 a.m.	On date due

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of Borrower, or any other officer or partner having substantially the same authority and responsibility. Any document or certificate hereunder that is signed or executed by a Responsible Officer shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of Borrower and to have acted on behalf of Borrower.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Securities" means any stock, shares, partnership interests, voting trust certificates, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"Senior Debt Documents" means collectively (a) Borrower's 7.02% Senior Notes due 2002 issued in the aggregate principal amount of \$25,000,000 and (b) BW/IP International, Inc.'s 7.92% Senior Notes due 1999 issued in the

original principal amount of \$50,000,000 and (c) BW/IP International, Inc.'s 7.14% Senior Notes due 2006 and 2007 in the original principal amount of \$50,000,000, in each case together with any and all agreements and instruments executed in connection with the issuance of such Senior Notes, as in effect from time to time and after giving effect to any waivers thereunder.

"Solvent" means, with respect to any Person that: (a) the total present fair value and fair salable value of such Person's assets on a going concern basis is in excess of the total amount of such Person's liabilities, including contingent liabilities; (b) such Person is able to pay its liabilities and contingent liabilities as they become due; and (c) such Person does not have unreasonably small capital with which to engage in such Person's business as theretofore operated and as proposed to be operated.

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"Spot Rate" for a currency means the rate quoted by BofA to the Agent, rounded upward to the nearest 1/100 of 1%, as the spot rate for the purchase by BofA of such currency with another currency through its FX Trading Office at approximately 8:00 a.m. (San Francisco time) on the date two Business Days prior to the date as of which the foreign exchange computation is made.

"Standby Letter of Credit" means any standby letter of credit or similar instrument issued for the account of Borrower for the purpose of supporting performance, payment, deposit or surety obligations of Borrower or any of its Subsidiaries.

"Swap Agreement" means any agreement relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing).

"Subsidiary" of any Person means any corporation, association, partnership or other business entity of which at least 50% of the total voting power of shares of stock or other Securities entitled to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof.

"Subsidiary Debt" means Debt of a Subsidiary of Borrower owed to any Person other than Borrower or a Subsidiary of Borrower and reimbursement obligations under letters of credit issued for the account of a Subsidiary of Borrower, except for (i) Debt of any Material Subsidiary under the Material Subsidiary Guaranty, (ii) Debt of Subsidiaries set forth on Schedule 7.1) and any refinancings thereof permitted pursuant to Section 7.1(e), (iii) Debt of Subsidiaries permitted by Section 7.1(j), and (iv) Contingent Obligations of Subsidiaries permitted by Sections 7.5(a), 7.5(d), 7.5(f), 7.5(j) (other than in respect of letters of credit) and Contingent Obligations constituting performance bonds.

"Third Party" has the meaning specified in Section 2.7.

"Total Utilization of Commitments" means at any date of determination the sum of (i) the aggregate principal amount of all Committed Loans outstanding at such date plus (ii) the aggregate principal amount of all Competitive Loans outstanding at such date plus (iii) the Letter of Credit Usage determined as of such date.

"type" of Loan means (a) a Base Rate Loan, (b) an Offshore Rate Loan, (c) a Competitive Loan bearing interest at an Absolute Rate and (d) a



Competitive Loan bearing interest based on the Offshore Base Rate.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

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"Wholly-Owned Subsidiary" has the meaning specified in Section 7.8(b).

"Withdrawal Liability" has the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

1.2 Use of Defined Terms. Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

1.3 Accounting Terms. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, Generally Accepted Accounting Principles applied on a consistent basis, except as otherwise specifically prescribed herein. In the event that Generally Accepted Accounting Principles change during the term of this Agreement such that the financial covenants would then be calculated in a different manner or with different components, (a) Borrower and the Banks agree to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating Borrower's financial condition to substantially the same criteria as were effective prior to such change in Generally Accepted Accounting Principles and (b) Borrower shall be deemed to be in compliance with the covenants contained in the aforesaid Sections during the 90-day period following any such change in Generally Accepted Accounting Principles if and to the extent that Borrower would have been in compliance therewith under Generally Accepted Accounting Principles as in effect immediately prior to such change.

1.4 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a rounding up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

1.5 Exhibits and Schedules. All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

1.6 References to "Borrower and its Subsidiaries". Any reference herein to "Borrower and its Subsidiaries" or the like shall refer solely to Borrower during such times, if any, as Borrower shall have no Subsidiaries.

1.7 Miscellaneous Terms. The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

1.8 Dollar Equivalent Amounts. Any provisions in this Agreement setting forth amounts in Dollars shall be deemed to refer to the Dollar Equivalent of such currency on the

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date of determination pursuant to the definition thereof. The Agent shall determine the Dollar Equivalent of Obligations from time to time in accordance with the definition of "Dollar Equivalent."

## SECTION 2

### COMMITMENTS; INTEREST, FEES, PAYMENT PROCEDURES

#### 2.1 Committed Loans.

(a) Subject to the terms and conditions set forth in this Agreement, each Bank severally agrees, to make, Convert and Continue Committed Loans in Dollars or in Approved Offshore Currencies during the Availability Period as Borrower may request; provided, however, that the Outstanding Obligations of each Bank (excluding any outstanding Competitive Loans of such Bank) shall not exceed such Bank's Commitment and the Outstanding Obligations of all the Banks shall not exceed the combined Commitments at any time. Subject to the foregoing and other terms and conditions hereof, Borrower may borrow, Convert, Continue, prepay and reborrow Committed Loans as set forth herein without premium or penalty.

(b) Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. Upon the request of any Bank made through the Agent, such Bank's Loans may be evidenced by one or more Notes, instead of or in addition to loan accounts. Each such Bank may attach schedules to its Note(s) and endorse thereon the date, currency, amount and maturity of its Committed Loans and payments with respect thereto. Such loan accounts, records or Notes shall be conclusive absent manifest error of the amount of such Loans and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to the Loans.

#### 2.2 Borrowings, Conversions and Continuations of Committed Loans.

(a) Borrower may irrevocably request a Borrowing, Conversion or Continuation of Committed Loans in a Minimum Amount therefor by delivering a duly completed Request for Extension of Credit therefor by Requisite Notice to the Agent not later than the Requisite Time therefor. All Borrowings, Conversions or Continuations shall constitute Base Rate Loans unless properly and timely otherwise designated as set forth in the preceding sentence.

(b) Promptly following receipt of a Request for Extension of Credit, the Agent shall notify each Bank of its Pro Rata Share thereof by Requisite Notice. If any Bank promptly notifies the Agent that it is unable, in its sole discretion, to fund an Offshore Currency Loan in the requested currency, such request for Extension of Credit shall be deemed withdrawn. In the case of a Borrowing of Loans, each Bank shall make the funds for its Loan available to the Agent in the currency of such Loan at the Agent's Office not later than the Requisite Time therefor on the Business Day specified in such Request for Extension of Credit. Upon satisfaction or waiver of the applicable conditions set forth in Section 4, all funds so received shall be made available to Borrower in like funds received.

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(c) The Agent shall promptly notify Borrower and the Banks of the Offshore Rate and, if an Offshore Currency Loan, the Dollar Equivalent thereof, applicable to any Offshore Rate Loan upon determination thereof.

(d) Unless the Agent and the Requisite Banks otherwise consent, Loans with no more than ten different Interest Periods shall be outstanding at any one time.

(e) No Loans other than Base Rate Loans may be requested or continued during the existence of a Default or Event of Default. During the existence of a Default or Event of Default, the Requisite Banks may determine that any or all of the then outstanding Committed Loans other than Base Rate Loans shall be Converted to Base Rate Loans. Such Conversion shall be effective upon notice to Borrower from the Agent and shall continue so long as such Default or Event of Default continues to exist.

(f) If a Loan is to be made on the same date that another Loan is due and payable, Borrower or the Banks, as the case may be, shall make available to the Agent the net amount of funds giving effect to both such Loans and the effect for purposes of this Agreement shall be the same as if separate transfers of funds had been made with respect to each such Loan.

(g) The failure of any Bank to make any Loan on any date shall not relieve any other Bank of any obligation to make a Loan on such date, but no Bank shall be responsible for the failure of any other Bank to so make its Loan.

### 2.3 Competitive Loans.

(a) Subject to the terms and conditions hereof, at any time and from time to time during the Availability Period, each Bank may in its sole and absolute discretion make Competitive Loans to Borrower in such principal amounts as Borrower may request; provided, however, that the Outstanding Obligations of all the Banks shall not exceed the combined Commitments at any time; provided, further, that the outstanding Competitive Loans made by any Bank may exceed its Commitment. The Competitive Loans shall be deemed to utilize the combined Commitments by an amount equal to the aggregate outstanding principal amount thereof.

(b) Borrower may irrevocably request Competitive Loans in Dollars in a Competitive Loan Minimum Amount therefor by delivering a duly completed Competitive Bid Request by Requisite Notice to the Agent not later than the Competitive Loan Requisite Time therefor. Each Competitive Bid Request shall state whether a Competitive Bid is requested on the basis of a fixed interest rate (an "Absolute Rate Bid") or on the basis of a margin above or below the Offshore Base Rate (an "Offshore Rate Bid"). Borrower may not request Competitive Bids for more than three maturities nor request more than one type of Competitive Loan in a single Competitive Bid Request. Unless the Agent otherwise agrees, in its sole and absolute discretion, Borrower may not submit a Competitive Bid Request if it has submitted another Competitive Bid Request within the prior five Business Days.

(c) No Competitive Bid Request shall be made for an Absolute Bid with a maturity of less than 30 days or more than 180 days, for an Offshore Rate Bid with a maturity of

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less than one month or more than six months, or in any case with a maturity

date subsequent to the Maturity Date. No more than ten different maturities for Competitive Loans may be outstanding at any time.

(d) The Agent shall promptly notify the Banks of a Competitive Bid Request by delivering a written copy thereof to the Banks. Each Bank may, in its sole and absolute discretion, bid or not bid on all or a portion of the Competitive Loans requested in such Competitive Bid Request by delivering by Requisite Notice an irrevocable, duly completed Competitive Bid to the Agent by the Competitive Loan Requisite Time for delivering Competitive Bids. Any Competitive Bid received after such Competitive Loan Requisite Time, that is in a form other than a duly completed Competitive Bid Request, or that is otherwise not responsive to the Competitive Bid Request shall be disregarded. A Bank may subsequently correct any Competitive Bid containing a manifest error if it does so by the Competitive Loan Requisite Time for delivering Competitive Bids. The Agent may, but shall not be required to, notify any Bank of any manifest error it detects in such Bank's Competitive Bid.

(e) The Competitive Bid Maximum offered by a Bank for any Competitive Loan(s) requested in a Competitive Bid may be less than the principal amount of such Competitive Loan(s) requested by Borrower, but shall not be less than the Competitive Loan Minimum Amount for any Competitive Loan for which such Bank is bidding. Each Competitive Bid shall expire unless accepted by Borrower prior to the Competitive Loan Requisite Time for accepting Competitive Bids.

(f) The Agent shall promptly notify Borrower of the names of the Banks providing conforming Competitive Bids and the terms of such Competitive Bids. Borrower may, in its sole and absolute discretion, accept or reject any Competitive Bid, or any portion thereof, provided, that if Borrower accepts any Competitive Bid, or any portion thereof, the following shall apply: (i) Borrower must notify the Agent of its acceptance of any Competitive Bids not later than the Competitive Loan Requisite Time for doing so, (ii) Borrower must accept all Absolute Rate Bids at all lower fixed interest rates before accepting any portion of Absolute Rate Bids at a higher fixed interest rate, (iii) Borrower must accept all Offshore Rate Bids at all lower margins over the Offshore Base Rate before accepting any portion of Offshore Rate Bids at a higher margin over the Offshore Base Rate, (iv) each Competitive Loan to be made must be in a Competitive Loan Minimum Amount therefor, (v) if two or more Banks have submitted a Competitive Bid at the same fixed interest rate or margin, then Borrower must accept either all of such Competitive Bids or accept such Competitive Bids in the same proportion as the Competitive Bid Maximum of each Bank for such Competitive Loan bears to the aggregate Competitive Bid Maximums of all such Banks for such Competitive Loans (subject to clause (iv) above) and (vi) Borrower may not accept Competitive Bids for an aggregate amount in excess of the Competitive Loans requested in its Competitive Bid Request.

(g) The Agent shall promptly notify each of the Banks whose Competitive Bid, or any portion thereof, has been accepted or rejected by Borrower by telephone, which notification shall promptly be confirmed in writing, delivered in person or by telecopier to such Banks. Any Competitive Bid, or portion thereof, not timely accepted by Borrower and/or timely notified by the Agent to a Bank as having been accepted shall be deemed rejected.

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(h) In the case of a Offshore Rate Bid, the Agent shall determine the Offshore Base Rate on the date which is two Business Days prior to the date of the proposed Competitive Loan, and shall promptly thereafter notify Borrower and the Banks whose Offshore Rate Bids were accepted by Borrower of such Offshore Base Rate.

(i) Each Bank which has had a Competitive Bid, or portion

thereof, accepted by Borrower shall make the funds for its Competitive Loan(s) available to the Agent at the Agent's Office not later than the Requisite Time for making such funds available on the Business Day specified in such Competitive Loan Request. Upon satisfaction or waiver of the applicable conditions set forth in Section 4, all funds so received shall be made available to Borrower.

(j) The Agent shall notify all Banks promptly after each Competitive Bid auction of the ranges of bids submitted and accepted for each Competitive Loan and the aggregate amount of Competitive Loans borrowed.

(k) Each Bank's Competitive Loan shall be evidenced by that Bank's Competitive Loan Note or by one or more loan accounts or records maintained by such Bank in the ordinary course of business, in each case subject to Section 2.1(b).

(l) Each Competitive Loan shall be due and payable on the maturity date of such Competitive Loan.

(m) Any Bank may designate one or more Competitive Loan Designated Bidders to have a right, in addition to itself, to offer and make Competitive Loans Bid Loans hereunder by causing such Competitive Loan Designated Bidders to become a party to this Agreement by duly executing and delivering to the Agent a Competitive Loan Designated Bidder Joinder Agreement substantially in the form of Exhibit E-4 hereto. The Agent shall notify Borrower of any such Competitive Loan Designated Bidders. Upon the Agent accepting an appropriately completed Competitive Loan Designated Bidder Joinder Agreement, the Designated Bidder shall be deemed to be a direct party to this Agreement subject to the following:

(i) a Competitive Loan Designated Bidder shall have the rights and obligations of a Bank under this Section 2.3, including being solely liable for the performance of its obligations relating to its Competitive Loans, except that the designating Bank may retain some or all of such rights, such as receiving and giving notices directly from and to the Agent and funding and receiving payments directly through the Agent, as provided in a Competitive Loan Designated Bidder Joinder Agreement; and

(ii) except as aforesaid, a Competitive Loan Designated Bidder shall have only the rights of a participant with respect to its Competitive Loans as set forth in Section 10.8(e); provided, however, that notwithstanding Section 10.8(e)(iii), a Competitive Loan Designated Bidder shall have rights only under Sections 3.1, 3.5 and 3.6 and Section 10.9, unless the Competitive Loan Designated Bidder Joinder Agreement provides that the Competitive Loan Designated Bidder shall have fewer rights.

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Upon the request of a Competitive Loan Designated Bidder made through the Agent, Borrower shall execute and deliver a Competitive Loan Note to evidence Competitive Loans made by such Competitive Loan Designated Bidder. A Bank may revoke any designation of a Competitive Loan Designated Bidder at any time upon written notice to the Agent, but such revocation shall not affect the rights and obligations of a Competitive Loan Designated Bidder as to any of its outstanding Competitive Loans.

(n) Borrower shall pay to the Agent for its own account an administration fee in an amount set forth in a letter agreement dated August 22, 1997 between Borrower and the Agent for each Competitive Bid Request submitted (whether or not any bids are submitted or accepted) which fee shall be payable quarterly in arrears on each Quarterly Payment Date and on the

Maturity Date.

2.4 Letters of Credit.

(a) Subject to the terms and conditions hereof, at any time and from time to time from the Closing Date through the Maturity Date, the Issuing Bank shall issue, supplement, modify, amend, renew, or extend Letters of Credit in Dollars or in Approved Offshore Currencies under the Commitments as Borrower may request; provided, however, that (i) the Outstanding Obligations of each Bank (excluding any outstanding Competitive Loans of such Bank) shall not exceed such Bank's Commitment and the Outstanding Obligations of all the Banks shall not exceed the combined Commitments at any time and (ii) the aggregate outstanding Letter of Credit Usage shall not exceed the Dollar Equivalent of \$100,000,000 at any time. Each Letter of Credit shall be in a form reasonably acceptable to the Issuing Bank and shall not violate any policies of the Issuing Bank. The Issuing Bank shall not be obligated to issue a Letter of Credit denominated in a foreign currency if and so long as the Issuing Bank determines that foreign currency market circumstances make it unlawful, impossible or impracticable for the Issuing bank to issue such Letter of Credit. Unless all the Banks, the Agent and the Issuing Bank otherwise consent in a writing delivered to the Agent, and subject to permitting "evergreen" Letters of Credit as provided in subsection (b) below, no Letter of Credit shall expire later than the earlier of (x) the Maturity Date and (y) five years after its date of original issuance.

(b) Borrower may irrevocably request the issuance, supplement, modification, amendment, renewal, or extension of a Letter of Credit by delivering a duly completed Letter of Credit Application therefor to the Issuing Bank, with a copy to the Agent, by Requisite Notice not later than the Requisite Time therefor. Unless the Administrative Agent notifies the Issuing Bank that such Letter of Credit Action is not permitted hereunder or the Issuing Bank determines that such Letter of Credit Action is contrary to any Laws or policies of the Issuing Bank or does not otherwise conform to the requirements of this Agreement, the Issuing Bank shall effect such Letter of Credit Action. Letters of Credit may have automatic extension or renewal provisions ("evergreen" Letters of Credit) so long as the Issuing Bank has the right to terminate such evergreen Letters of Credit no less frequently than annually within a notice period to be agreed upon at the time each such Letter of Credit is issued. This Agreement shall control in the event of any conflict with any Letter of Credit Application.

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(c) Upon the issuance of a Letter of Credit, each Bank shall be deemed to have purchased a pro rata participation in such Letter of Credit, as from time to time supplemented, amended, renewed, or extended, from the Issuing Bank in an amount equal to that Bank's Pro Rata Share. Without limiting the scope and nature of each Bank's participation in any Letter of Credit, to the extent that the Issuing Bank has not been reimbursed by Borrower for any payment required to be made by the Issuing Bank under any Letter of Credit, each Bank shall, pro rata according to its Pro Rata Share, reimburse the Issuing Bank through the Agent promptly upon demand for the amount of such payment. The obligation of each Bank to so reimburse the Issuing Bank shall be absolute and unconditional and shall not be affected by the occurrence of an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of Borrower to reimburse the Issuing Bank for the amount of any payment made by the Issuing Bank under any Letter of Credit together with interest as hereinafter provided.

(d) Borrower agrees to pay to the Issuing Bank through the Agent an amount equal to any payment made by the Issuing Bank with respect to each Letter of Credit within one Business Day after demand made by the Issuing Bank therefor. The principal amount of any such payment shall be used to

reimburse the Issuing Bank for the payment made by it under the Letter of Credit. Each Bank that has reimbursed the Issuing Bank for its Pro Rata Share of any payment made by the Issuing Bank under a Letter of Credit shall thereupon acquire a pro rata participation, to the extent of such reimbursement, in the claim of the Issuing Bank against Borrower under this Section and shall share, in accordance with that pro rata participation, in any payment made by Borrower with respect to such claim.

(e) If Borrower fails to make the payment required by subsection (d) above within the time period therein set forth, in lieu of the reimbursement to the Issuing Bank under such subsection, the Issuing Bank may (but is not required to), without notice to or the consent of Borrower, instruct the Agent to cause Loans to be made by the Banks in an aggregate amount equal to the amount paid by the Issuing Bank with respect to that Letter of Credit and, for this purpose, the conditions precedent set forth in Section 4 shall not apply. The proceeds of such Loans shall be paid to the Issuing Bank to reimburse it for the payment made by it under the Letter of Credit. Such Loans shall be payable upon demand and shall bear interest at the Default Rate.

(f) Once an evergreen Letter of Credit is issued, Borrower shall not be required to annually request that the Issuing Bank permit the renewal thereof. Borrower, the Agent and the Banks authorize (but may not require) the Issuing Bank to, in its sole discretion, permit the renewal of such evergreen Letter of Credit if such Letter of Credit could be issued in the first instance at such time.

(g) The obligation of Borrower to pay to the Issuing Bank the amount of any payment made by the Issuing Bank under any Letter of Credit shall be absolute, unconditional, and irrevocable. Without limiting the foregoing, Borrower's obligations shall not be affected by any of the following circumstances:

(i) any lack of validity or enforceability of the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

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(ii) any amendment or waiver of or any consent to departure from the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, with the consent of Borrower;

(iii) the existence of any claim, setoff, defense, or other rights which Borrower may have at any time against the Issuing Bank, the Agent or any Bank, any beneficiary of the Letter of Credit (or any persons or entities for whom any such beneficiary may be acting) or any other Person, whether in connection with the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, or any unrelated transactions;

(iv) any demand, statement, or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever so long as any such document appeared to comply with the terms of the Letter of Credit;

(v) payment by the Issuing Bank in good faith under the Letter of Credit against presentation of a draft or any accompanying document which does not strictly comply with the terms of the Letter of Credit;

(vi) the existence, character, quality, quantity, condition, packing, value or delivery of any property purported to be represented by documents presented in connection with any Letter of Credit or for any difference between any such property and the character, quality, quantity, condition, or value of such property as described in such documents;

(vii) the time, place, manner, order or contents of shipments or deliveries of property as described in documents presented in connection with any Letter of Credit or the existence, nature and extent of any insurance relative thereto;

(viii) the solvency or financial responsibility of any party issuing any documents in connection with a Letter of Credit;

(ix) any failure or delay in notice of shipments or arrival of any property;

(x) any error in the transmission of any message relating to a Letter of Credit not caused by the Issuing Bank, or any delay or interruption in any such message;

(xi) any error, neglect or default of any correspondent of the Issuing Bank in connection with a Letter of Credit;

(xii) any consequence arising from acts of God, wars, insurrections, civil unrest, disturbances, labor disputes, emergency conditions or other causes beyond the control of the Issuing Bank;

(xiii) so long as the Issuing Bank in good faith determines that the contract or document appears to comply with the terms of the Letter of Credit, the form, accuracy,

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genuineness or legal effect of any contract or document referred to in any document submitted to the Issuing Bank in connection with a Letter of Credit; and

(xiv) where the Issuing Bank has acted in good faith and observed general banking usage, any other circumstances whatsoever.

(h) To the extent not inconsistent with applicable Laws, each Letter of Credit shall also be governed by the most recent version of the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce in effect when such Letter of Credit was issued.

(i) With respect to each outstanding Letter of Credit, Borrower shall pay to the Agent, for the account of each of the Banks in accordance with its Pro Rata Share, a fee equal to the following percent of the average daily maximum amount available to be drawn under such Letter of Credit, calculated in accordance with the following table:

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Type of Letter of Credit -----	Fee ---
Performance Standby Letters of Credit	Greater of (i) Applicable Amount p.a. less 10.b.p. and (ii) 15 b.p, payable in arrears
FINANCIAL STANDBY LETTERS OF CREDIT	Applicable Amount therefor, payable in arrears
COMMERCIAL LETTERS OF CREDIT	Greater of (i) 0.125% of face amount and (ii) \$400, payable upon issuance

Letter of Credit fees for Performance Standby Letters of Credit and Financial Standby Letters of Credit shall accrue from the issuance of such Letter of Credit until its expiration or termination and shall be payable quarterly in arrears on each Quarterly Payment Date and such termination or expiration date. Such fees shall be calculated quarterly in arrears; if there is any change in the Applicable Amount during any quarter, the average daily undrawn face amount shall be computed and multiplied by the Applicable Amount separately for each period that such Applicable Amount was in effect during such quarter. These fees are nonrefundable.

(j) Borrower shall pay to the Agent for the sole account of the Issuing Bank a fronting fee equal to 10 basis points. In addition, Borrower shall pay directly to the Issuing Bank for its sole account its customary documentary and processing charges in accordance with its standard schedule, as from time to time in effect, for any issuance, amendment, transfer, supplement, modification, renewal, extension or other action relating to a Letter of Credit.

## 2.5 Prepayments.

(a) Upon Requisite Notice to the Agent not later than the Requisite Time therefor, Borrower may at any time and from time to time voluntarily prepay Committed Loans in the Minimum Amount therefor in the currency of such Committed Loan. The Agent will promptly notify each Bank of such Bank's Pro Rata Share of such prepayment.

(b) On any date that Borrower or any of its Subsidiaries receives any Excess Net Proceeds which are not reinvested as set forth in Section 7.6(g), Borrower shall apply an amount equal to such Excess Net Proceeds first to prepay Committed Loans in full, second to deposit cash to be held by the Agent in an interest-bearing cash collateral account as collateral for any Letter of Credit Usage, and third to prepay outstanding Competitive Loans. The combined Commitments shall also be reduced by an amount equal to such Excess Net Proceeds in accordance with Section 2.6(a).

(c) If for any reason the Outstanding Obligations exceed the combined Commitments (including, without limitation, by reason of the Agent from time to time determining the Dollar Equivalent of Outstanding Obligations in accordance with Section 1.8) as in effect or as reduced or because of any limitation set forth in this Agreement or otherwise, Borrower shall immediately first prepay Committed Loans in full, second deposit cash to be held by the Agent in an interest-bearing cash collateral account as collateral for any Letter of

Credit Usage, and third prepay outstanding Competitive Loans in an aggregate amount equal to such excess.

(d) Any prepayment of a Loan other than a Base Rate Loan shall be accompanied by all accrued interest thereon, together with the costs set forth in Section 3.6.

(e) Each payment or prepayment of outstanding Committed Loans must be made ratably among all Banks. Each payment or prepayment of Competitive Loans must be made ratably among all outstanding Competitive Loans of the same type borrowed on the same day; provided, however, that, except as set forth in subsection (b) above, no Competitive Loan may be prepaid without the prior written consent of the Bank making such Competitive Loan.

## 2.6 Mandatory and Voluntary Reduction or Termination of Commitments.

(a) Upon any date that the Loans are required to be prepaid pursuant to Section 2.5(b) (whether or not Loans are, in fact, so prepaid), the combined Commitments shall automatically be reduced as of the date of such required prepayment by an amount equal to such prepayment requirement (whether or not Loans are, in fact, so prepaid in such amount).

(b) Upon Requisite Notice to the Agent not later than the Requisite Time therefor, Borrower shall have the right, at any time and from time to time, without penalty or charge, to permanently and irrevocably, reduce the combined Commitments in a Minimum Amount therefor, or terminate the then unused portion of the combined Commitments.

(c) The Agent shall promptly notify the Banks of any reduction or the termination of the Commitments under this Section. Any mandatory or voluntary reduction or termination of the combined Commitments shall be accompanied by payment of all accrued and unpaid facility fees with respect to the portion of the combined Commitments being reduced or terminated. Each Bank's Commitment shall be reduced by an amount equal to such Bank's Pro Rata Share times the amount of such reduction.

## 2.7 Optional Increase of the Commitments.

(a) Not more than once in any calendar year, Borrower may propose to increase the combined Commitments by an aggregate amount of not less than the Minimum Amount therefor (a "Proposed Combined Commitments Increase") in the manner set forth below; provided that (i) the then current combined Commitments plus the Proposed Combined Commitments Increase shall not be greater than the Maximum Permitted Combined Commitments; (ii) immediately prior to and after giving effect to the Proposed Combined Commitments Increase no event has occurred and is continuing that constitutes an Event of Default or Default; and (iii) Borrower shall pay any costs payable under Section 3.6 if and to the extent any Offshore Rate Loans are prepaid on the effective date of such increase (the "Increase Date").

(b) Borrower may request a Proposed Combined Commitments Increase by delivering to the Agent, by Requisite Notice not later than the Requisite Time therefor. Such notice (i) shall specify the Proposed Combined Commitments Increase and the proposed

Increase Date, and (ii) may specify Eligible Assignees that are not Banks (the "Third Parties"), to whom Borrower desires to offer all or a portion of the Proposed Combined Commitments Increase, to the extent not committed to by the existing Banks. The Agent shall in turn promptly notify each Bank by sending each Bank a copy of such notice.

(c) Each Bank, in its sole discretion, may irrevocably offer to commit to all or a portion of the Proposed Combined Commitments Increase in increments of \$1,000,000 (the "Proposed Increased Commitment") by notifying the Agent (which shall give prompt notice thereof to Borrower) by Requisite Notice not later than the Requisite Time therefor. If the amount of Proposed Increased Commitments exceeds the Proposed Combined Commitments Increase, such

Proposed Increased Commitments shall be allocated on a pro rata basis based on the ratio of each Bank's Proposed Increased Commitment, if any, to the aggregate of all Proposed Increased Commitments. Each Bank that submits a Proposed Increased Commitment shall execute and deliver to the Agent an Increased Commitment Acceptance therefor.

(d) If any portion of the Proposed Combined Commitments Increase not committed to by existing Banks equals or exceeds \$5,000,000 (the "Increase Remainder"), the Agent shall notify each Third Party thereof four Business Days before the Increase Date. Each Third Party may irrevocably commit to all or a portion of the Increase Remainder in a minimum principal amount of \$5,000,000 (a "Proposed New Commitment") by notifying the Agent by Requisite Notice (who shall give prompt notice thereof to Borrower) by the Requisite Time therefor. If there are Third Parties willing to commit to more than the Increase Remainder, Borrower, in consultation with the Agent, may allocate the Increase Remainder in its sole discretion, but keeping the \$5,000,000 minimum requirement. Each Third Party that submits a Proposed New Commitment shall execute and deliver to the Agent a New Commitment Acceptance therefor. By executing and delivering a New Commitment Acceptance, each Third Party shall be deemed to have agreed with the matters set forth in Section 10.8(c)(iii)-(vi).

(e) If the commitments of the Banks and Third Parties to the Proposed Combined Commitments Increase equal the Proposed Combined Commitments Increase, the combined Commitments shall be increased by the Proposed Combined Commitment Increase on the Increase Date provided the Agent shall have received on or before the Increase Date certified copies of the resolutions of the Executive Committee of the Board of Directors of Borrower approving such increase of the combined Commitments, and of all documents evidencing other necessary corporate action, if any, with respect to such increase. Upon any Third Party paying an assignment fee of \$3,000 to the Agent, any Third Parties shall become a Bank hereunder, and the Agent shall, promptly following the effective date thereof, provide to Borrower and the Banks a revised Schedule 10.6 giving effect thereto. Borrower agrees that it shall execute and deliver upon request to such Third Party, one or more Notes evidencing that assignee Bank's Pro Rata Share.

(f) If, after giving effect to the Proposed Combined Commitments Increase, any Bank's revised Pro Rata Share of the combined Commitments is different than its share of Outstanding Obligations, the Outstanding Obligations shall be reallocated among the Banks as follows. On the Increase Date Borrower shall be deemed to have prepaid all outstanding Committed Loans in accordance with Section 2.5 and reborrowed all Committed Loans in accordance with Section 2.2 from all Banks ratably in accordance with their revised Pro Rata

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Shares. Each Bank having a decreased Pro Rata Share (a "Selling Bank") agrees to sell and assign to each other Bank (each a "Buying Bank"), and each Buying Bank hereby agrees to ratably purchase and assume, without recourse, from each Selling Bank, a ratable portion of each Selling Bank's Letter of Credit Usage such that, after giving effect to such assignments, each Bank's share of all Outstanding Obligations (except Competitive Loans) equals its revised Pro Rata Share. The Agent shall distribute to each Selling Bank an amount equal to the difference between its Committed Loans so prepaid and the new Committed Loans deemed to have been made by it. Such payments shall be deemed to be a payment of the Committed Loans by Borrower on the date such payment is received. The Selling Bank acknowledges and agrees to the matters set forth in Section 10.8(c) as to the Letter of Credit Usage it has acquired. Interest and fees accruing on the Letter of Credit Usage for the period prior to the Increase Date shall be for the account of each Selling Bank, and interest and fees accruing on the Letter of Credit Usage for the period from and after the

Increase Date shall be for the account of each Buying Bank.

(g) If the commitments of the Banks and Third Parties to the Proposed Combined Commitments Increase are less than the Proposed Combined Commitments Increase, the combined Commitments shall not be increased; provided, however, that, unless the combined Proposed Increased Commitments and Proposed New Commitments is zero, Borrower may within the same calendar year again propose to increase the combined Commitments pursuant to the terms of this Section 2.7.

## 2.8 Principal and Interest.

(a) If not sooner paid, Borrower shall pay, and promises to pay, the outstanding principal amount of each Committed Loan in the currency of such Committed Loan on the Maturity Date.

(b) Subject to subsection (c), Borrower shall pay interest on the unpaid principal amount of the Loans (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law) in the currency of such Loan from the date borrowed until paid in full (whether by acceleration or otherwise) on each Interest Payment Date for each type of Loan at a rate per annum equal to the applicable interest rate determined in accordance with the definition thereof, plus, if applicable, the Applicable Amount.

(c) If any amount payable by Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), it shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate. Accrued and unpaid interest on past due amounts (including, without limitation, interest on past due interest) shall be compounded monthly, on the last day of each calendar month, to the fullest extent permitted by applicable Laws and payable upon demand.

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## 2.9 Fees.

(a) Facility Fee. Borrower shall pay to the Agent, for the ratable accounts of the Banks pro rata according to their Pro Rata Share, a facility fee equal to the Applicable Amount times the combined Commitments, regardless of usage. The facility fee shall accrue from the Closing Date until the Maturity Date and shall be payable quarterly in arrears on each Quarterly Payment Date and on the Maturity Date. The facility fee shall be calculated quarterly in arrears; if there is any change in the Applicable Amount during any quarter, the average daily amount shall be computed and multiplied by the Applicable Amount separately for each period that such Applicable Amount was in effect during such quarter.

(b) Agency Fees. Borrower shall pay to the Agent an agency fee in such amounts and at such times as heretofore agreed upon by letter agreement dated August 22, 1997 between Borrower and the Agent. The agency fee is for the services to be performed by the Agent in acting as Agent and is fully earned on the date paid. The agency fee paid to the Agent is solely for its own account and is nonrefundable.

2.10 Computation of Interest and Fees. Computation of interest on Base Rate Loans shall be calculated on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed; computation of interest on all other types of Loans and all fees under this Agreement shall be calculated on the basis of a year of 360 days and the actual number of days elapsed, which results in a higher yield to the Banks than a method based on a year of 365 or 366 days. Interest shall accrue on each Loan for the day on which the Loan is made; interest shall not accrue on a Loan, or any portion

thereof, for the day on which the Loan or such portion is paid. Any Loan that is repaid on the same day on which it is made shall bear interest for one day. Notwithstanding anything in this Agreement to the contrary, interest in excess of the maximum amount permitted by applicable Laws shall not accrue or be payable hereunder, and any amount paid as interest hereunder which would otherwise be in excess of such maximum permitted amount shall instead be treated as a payment of principal.

2.11 Manner and Treatment of Payments among the Banks, Borrower and the Agent.

(a) Unless otherwise provided herein, all payments by Borrower or any Bank hereunder shall be made to the Agent at the Agent's Office not later than the Requisite Time for such type of payment without condition or deduction for, any counterclaim, defense, recoupment or setoff. All payments received after such Requisite Time shall be deemed received on the next succeeding Business Day. All payments shall be made in immediately available funds in lawful money of the United States of America.

(b) Upon satisfaction of any applicable terms and conditions set forth herein, the Agent shall promptly make any amounts received in accordance with the prior subsection available in like funds received as follows: (i) if payable to Borrower, by crediting the Designated Deposit Account, and (ii) if payable to any Bank, by wire transfer to such Bank at the address specified in Schedule 10.6. The Agent's determination, or any Bank's determination not contradictory thereto, of any amount payable hereunder shall be conclusive in the absence of manifest error.

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(c) Subject to the definition of "Interest Period," if any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall instead be considered due on the next succeeding Business Day and the extension of time shall be reflected in computing interest and fees.

(d) Unless Borrower or any Bank has notified the Agent prior to the date any payment to be made by it is due, that it does not intend to remit such payment, the Agent may, in its discretion, assume that Borrower or the Bank, as the case may be, has timely remitted such payment and may, in its discretion and in reliance thereon, make available such payment to the Person entitled thereto. If such payment was not in fact remitted to the Agent, then:

(i) if Borrower failed to make such payment, each Bank shall forthwith on demand repay to the Agent the amount of such assumed payment made available to such Bank, together with interest thereon in respect of each day from and including the date such amount was made available by the Agent to such Bank to the date such amount is repaid to the Agent at the Federal Funds Rate or, in the case of a payment in an Approved Offshore Currency, the Offshore Currency Overnight Rate; and

(ii) if any Bank failed to make such payment, such Bank shall on the Business Day following such Borrowing Date pay to the Agent the amount of such assumed payment made available to Borrower, together with interest thereon in respect of each day from and including the date such amount was made available by the Agent to Borrower to the date such amount is paid to the Agent at the Federal Funds Rate or, in the case of a payment in an Approved Offshore Currency, the Offshore Currency Overnight Rate. Nothing herein shall be deemed to relieve any Bank from its obligation to fulfill its Commitment or to prejudice any rights which the Agent or Borrower may have against any Bank as a result of any default by

such Bank hereunder.

2.12 Funding Sources. Nothing in this Agreement shall be deemed to obligate any Bank to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Bank that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 Extension of Maturity Date. (a) At the request of Borrower and with the written consent of all of the Banks (which may be given or withheld in the sole and absolute discretion of each Bank) pursuant to this Section the Maturity Date may be extended for one-year periods, provided no Default or Event of Default has occurred and is continuing at the time of such request. Not earlier than three months prior to, nor later than 30 days prior to, each anniversary of the Closing Date, Borrower may request by Requisite Notice made to the Agent (who shall promptly notify the Banks) a one year extension of the Maturity Date. Such request shall include a certificate signed by a Responsible Officer stating that (i) the representations and warranties contained in Section 5 shall be true and correct on and as of the date of such certificate and (ii) no Default or Event of Default has occurred and is continuing. Each Bank shall, within 20 Business days of the Agent delivering such notice to such Bank, notify in writing the Agent whether it consents to or declines such request.

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(b) The Agent shall, after receiving the notifications from all of the Banks or the expiration of such period, whichever is earlier, notify Borrower and the Banks of the results thereof. If all of the Banks have consented, then the Maturity Date shall be extended for one year.

### SECTION 3 TAXES, YIELD PROTECTION AND ILLEGALITY

3.1 Taxes. Each payment of any amount payable by Borrower under this Agreement or any other Loan Document shall be made free and clear of, and without reduction by reason of, any Applicable Taxes. To the extent that Borrower is obligated by applicable Laws to make any deduction or withholding on account of Applicable Taxes from any amount payable to any Bank or the Issuing Bank under this Agreement, Borrower shall promptly notify the Agent of such fact and shall (a) make such deduction or withholding and pay the same to the relevant Governmental Authority and (b) pay such additional amount directly to that Bank or the Issuing Bank as is necessary to result in that Bank or the Issuing Bank receiving a net after-Applicable Tax amount equal to the amount to which that Bank or the Issuing Bank would have been entitled under this Agreement absent such deduction or withholding. Within 30 days after the date of any payment by Borrower of any amounts pursuant to this section, Borrower shall furnish to the Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Agent.

3.2 Increased Costs. If any Bank or the Issuing Bank determines that any Laws or guidelines (whether or not having the force of law), or compliance therewith, have the effect of increasing its cost of agreeing to make or making, to issue or participating in, funding or maintaining any Loans or Letters of Credit, then Borrower shall, upon demand by such Bank or the Issuing Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank or the Issuing Bank additional amounts sufficient to compensate such Bank or the Issuing Bank for such increased cost.

3.3 Capital Adequacy. If any Bank or the Issuing Bank determines that any Laws regarding capital adequacy, or compliance by such Bank or the Issuing Bank (or its Lending Office) or any corporation controlling the Bank or the Issuing Bank, with any request, guideline or directive regarding

capital adequacy (whether or not having the force of law) of any Governmental Authority not imposed as a result of the Issuing Bank's, such Bank's or such corporation's failure to comply with any other Laws, affects or would affect the amount of capital required or expected to be maintained by such Bank, the Issuing Bank or any corporation controlling such Bank or the Issuing Bank and (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy and such Bank's and the Issuing Bank's desired return on capital) determines in good faith that the amount of such capital is increased, or the rate of return on capital is reduced, as a consequence of its obligations under this Agreement, then upon demand of such Bank or the Issuing Bank (with a copy to the Agent), Borrower shall pay to such Bank or the Issuing Bank, from time to time as specified in good faith by such Bank or the Issuing Bank, additional amounts sufficient to compensate such Bank or the Issuing Bank in light of such circumstances, to the extent reasonably allocable to such obligations under this Agreement.

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3.4 Illegality. If any Bank determines that any Laws has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Bank or its applicable Lending Office to make, maintain or fund Offshore Rate Loans, or materially restricts the authority of such Bank to purchase or sell, or to take deposits of, Dollars in the Offshore Rate Designated Market, or to determine or charge interest rates based upon the Offshore Rate, then, on notice thereof by the Bank to Borrower through the Agent, any obligation of that Bank to make Offshore Rate Loans shall be suspended until the Bank notifies the Agent and Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, Borrower shall, upon demand from such Bank (with a copy to the Agent), prepay or Convert all Offshore Rate Loans of that Bank, either on the last day of the Interest Period thereof, if the Bank may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if the Bank may not lawfully continue to maintain such Offshore Rate Loan. Each Bank agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Bank, otherwise be materially disadvantageous to such Bank.

3.5 Inability to Determine Rates. If, in connection with any Request for Extension of Credit, the Agent determines that (a) deposits in the relevant currency are not being offered to Banks in the London interbank market for the applicable amount and Interest Period of the requested Loan, (b) adequate and reasonable means do not exist for determining the underlying interest rate (other than the Base Rate) for the Loans requested therein, or (c) such underlying interest rates do not adequately and fairly reflect the cost to the Banks of funding such Loan, the Agent will promptly so notify Borrower and each Bank. Thereafter, the obligation of the Banks to make or maintain Loans based upon such affected interest rate or such currency shall be suspended until the Agent revokes such notice. Upon receipt of such notice, Borrower may revoke any pending Request for Extension of Credit for such type of Loan or, failing that, be deemed to have converted such Request for Extension of Credit into a request for Base Rate Loans in the amount specified therein.

3.6 Breakfunding Costs. Upon Continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day in the applicable Interest Period (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise and including any such action required under this Section 3), or upon the failure of Borrower (for a reason other than the failure of a Bank to make a Loan) to borrow, Continue or Convert any Loan other than a Base Rate Loan on the date or in the amount specified in any Request for Extension of Credit, then Borrower shall, upon demand made by any Bank (with a copy to the Agent), reimburse each Bank and hold each Bank harmless from any loss or expense which the Bank may sustain or

incur as a consequence thereof, including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained.

3.7 Matters Applicable to all Requests for Compensation.

(a) The Agent and any Bank shall provide reasonable detail to Borrower regarding the manner in which the amount of any payment to the Agent or that Bank under this Section 3 has been determined, concurrently with demand for such payment. The Agent's or any Bank's

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determination of any amount payable under this Section 3 shall be conclusive in the absence of manifest error.

(b) For purposes of calculating amounts payable under this Section 3 any Loan shall be deemed to have been funded at the applicable interest rate set forth in the definition thereof whether or not such Loan was, in fact, so funded.

(c) All of Borrower's obligations under this Section 3 shall survive termination of the Commitments and payment in full of all Outstanding Obligations.

SECTION 4  
CONDITIONS

4.1 Initial Extension of Credit. The obligation of each Bank to make the initial Loan to be made by it, or the obligation of the Issuing Bank to issue the initial Letter of Credit (as applicable), is subject to the following conditions precedent, each of which shall be satisfied prior to the making of the initial Loans (unless all of the Banks, in their sole and absolute discretion, shall agree otherwise):

(a) The Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Officer, each dated as of the Closing Date and each in form and substance satisfactory to the Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Agent otherwise agrees or directs):

(1) at least one executed counterpart of this Agreement, together with arrangements satisfactory to the Agent for additional executed counterparts, sufficient in number for distribution to the Banks and Borrower;

(2) Committed Loan Notes executed by Borrower in favor of each Bank requesting a Committed Loan Note, each in a principal amount equal to that Bank's Pro Rata Share;

(3) Competitive Loan Notes executed by Borrower in favor of each Bank;

(4) the Material Subsidiary Guaranty executed by each Material Subsidiary;

(5) with respect to Borrower and each Material Subsidiary, such documentation as the Agent may require to establish the due organization, valid existence and good standing of Borrower and each such Material Subsidiary, its qualification to engage in business in each material jurisdiction in which it is



engaged in business or required to be so qualified, its authority to execute, deliver and perform any Loan Documents to which it is a party, the identity, authority and capacity of each Responsible Officer thereof authorized to act on its behalf, including certified copies of articles of incorporation and amendments

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thereto, bylaws and amendments thereto, certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, certificates of Responsible Officers, and the like;

(6) the Opinion of Counsel;

(7) a certificate signed by a Responsible Officer setting forth the Ratio of Consolidated Funded Debt to Total Capitalization as of the last day of the most recently ended Fiscal Quarter and/or the Debt Rating as of the Closing Date, as applicable ;

(8) a certificate signed by a Responsible Officer certifying that the conditions specified in Sections 4.1(d) and 4.1(e) have been satisfied; and

(9) such other assurances, certificates, documents, consents or opinions as the Agent reasonably may require.

(b) The fees payable on the Closing Date shall have been paid.

(c) Attorney Costs of BofA to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute BofA's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between Borrower and BofA).

(d) The representations and warranties of Borrower contained in Section 5 shall be true and correct.

(e) Borrower and each Material Subsidiary shall be in compliance with all the terms and provisions of the Loan Documents, and giving effect to the initial Loan (or initial Letter of Credit, as applicable) no Default or Event of Default shall have occurred and be continuing.

4.2 Any Extension of Credit. The obligation of each Bank to make any Extension of Credit is subject to the following conditions precedent:

(a) the representations and warranties of Borrower contained in Section 5 are true and correct in all material respects as though made on and as of the above date (except (i) to the extent that such representations and warranties expressly relate solely to an earlier date and then shall be correct as of such date and (ii) that the representation and warranty set forth in Section 5.3 as to lack of material adverse change is made since the date of the then most recent financial statement delivered pursuant to Section 6.1 (b), before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no Default or Event of Default has occurred and is continuing, or would result from such proposed Extension of Credit.

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(c) the Agent shall have timely received a duly completed Request for Extension of Credit or Letter of Credit Application, as applicable, by Requisite Notice by the Requisite Time therefor;

(d) on the date of the first Extension of Credit hereunder, evidence that the Existing Credit Agreements have been, or concurrently therewith are being, terminated and that all amounts owing thereunder have been, or concurrently therewith are being, paid in full; provided, however, that letters of credit issued thereunder set forth on Schedule 7.1 may remain outstanding so long as the commitments and covenants (except for those covenants and agreements relating to such outstanding letters of credit and reimbursement of drawings thereunder) under the Existing Credit Agreements are otherwise terminated; and

(e) the Agent shall have received, in form and substance satisfactory to the Agent, such other assurances, certificates, documents or consents related to the foregoing as the Agent or Requisite Banks reasonably may require.

#### SECTION 5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Agent and the Banks that:

5.1 Due Incorporation, Etc. Each of Borrower and the Material Subsidiaries are corporations duly organized, validly existing and in good standing under the laws of the jurisdiction of their organization and have all requisite corporate power and authority to own or lease and operate their respective properties and to carry on their businesses as now conducted, and to execute and deliver, and to perform all of their obligations under, any Loan Document to which they are a party, and the transactions and documents contemplated hereby to which they are a party. Each of Borrower and its Subsidiaries are duly qualified or licensed to do business as foreign corporations in good standing in all jurisdictions in which they own or lease assets and property or in which the conduct of their businesses requires them to so qualify or be licensed, except where the failure to so qualify or be licensed would not have a Material Adverse Effect. Each Subsidiary of Borrower on the date hereof is set forth on Schedule 5.1.

5.2 Authorization of Borrowing, Etc.

(a) Authorization of Borrowing, No Conflict. The execution, delivery and performance by Borrower and each Material Subsidiary of Borrower that is a party to a Loan Document of the Loan Documents, the payment and performance of all Obligations, and the issuance, delivery and payment of the Letters of Credit and the consummation of the transactions contemplated hereby are within each such entity's corporate powers, have been duly authorized by all necessary corporate action by Borrower and each Material Subsidiary of Borrower which is a party to a Loan Document, do not contravene (i) Borrower's and such Material Subsidiary's certificate of incorporation or by-laws, or (ii) any law, rule, regulation (including, without limitation, Regulation G, U or X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award or any contractual restriction binding on or affecting Borrower or such Material Subsidiary or any of its properties, and do not result in or require the creation of any lien, security interest or other

charge or encumbrance upon or with respect to any of its properties; neither Borrower nor any of its Subsidiaries is in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination, award or restriction, in any respect which is likely to have a Material Adverse Effect.

(b) Governmental Consents. No authorization, consent, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is currently or is reasonably expected to be required on the part of Borrower or any Material Subsidiary of Borrower that is a party to a Loan Document for the due execution, delivery or performance by Borrower or any of its Material Subsidiaries of any Loan Document, the payment and performance of the Obligations by Borrower or any of its Subsidiaries, and the issuance, delivery and payment of the Letters of Credit and the consummation of the transactions contemplated hereby, except such authorizations, consents, approvals, other actions, notices or filings which, if not obtained, either (i) would not adversely affect the ability of Borrower and each of its Subsidiaries that is a party to a Loan Document to perform the transactions contemplated by the Loan Documents, or (ii) would not have a Material Adverse Effect.

(c) Due Execution and Delivery; Binding Obligations. This Agreement and each other Loan Document, if any, have been, or will be, duly executed and delivered by Borrower and each of its Material Subsidiaries which is a party thereto. This Agreement and each other Loan Document, if any, and the Obligations are, or will be, legally valid and binding obligations of Borrower and each of its Material Subsidiaries which is a party thereto, enforceable against Borrower or such Material Subsidiary in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

5.3 Financial Condition. The unaudited combined consolidated balance sheet of Borrower and its Subsidiaries dated September 30, 1997 and the related combined statements of income and cash flows, copies of which have been furnished to each Bank, were prepared in conformity with GAAP. All financial statements delivered to Banks pursuant to Section 6.1 hereof after the Closing Date will fairly present the consolidated financial position of Borrower and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of Borrower and its Subsidiaries for each of the periods covered thereby, subject, in the case of any unaudited interim financial statements, to changes resulting from normal year-end adjustments. Except for Durco Integration and Restructuring Expenses, since September 30, 1997 there has been no material adverse change in the business, condition (financial or otherwise), operations or properties of Borrower or Borrower and its Subsidiaries taken as a whole.

5.4 Absence of Litigation; Litigation Description. No actions, suits, investigations, litigation or proceedings are pending or, to the knowledge of Borrower, threatened against or affecting Borrower or any of its Subsidiaries or the properties of Borrower or any such Subsidiary before any court, arbitrator or governmental agency, department, commission, board, bureau or instrumentality, domestic or foreign, (a) that would have a Material Adverse Effect, or (b) which purports to affect the legality, validity or enforceability of this Agreement and any other Loan Document.

5.5 Payment of Taxes. Borrower and each of its Subsidiaries have filed or caused to be filed all tax returns (Federal, state, local and foreign) required to be filed and paid all amounts of taxes shown thereon to be due, including interest and penalties, except for (a) such taxes as are being contested in good faith and by proper proceedings and with respect to which

appropriate reserves are being maintained by Borrower or any such Subsidiary, as the case may be or (b) those the failure to pay which would not have a Material Adverse Effect.

5.6 Governmental Regulation. Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or the Investment Company Act of 1940, each as amended, or to any Federal or state statute or regulation limiting its ability to incur indebtedness for money borrowed. No Subsidiary is subject to any regulation that would limit the ability of Borrower to enter into or perform its obligations under this Agreement.

5.7 Not a Purpose Credit. Borrower and its Subsidiaries are not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, U or X issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Loan or Letter of Credit, will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

5.8 ERISA.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a

Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

5.9 Disclosure. No representation or warranty of Borrower or any Subsidiary of Borrower contained in any Loan Document (including any Schedule furnished in connection herewith) or any other document, certificate or written statement furnished to the Agent or any Bank by or on behalf of Borrower for use in connection with the transactions contemplated by this

Agreement contains any untrue statement of a material fact or omits to state a material fact (known to Borrower in the case of any documents not furnished by it) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which the same were made. The projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the Persons responsible for preparing such projections and pro forma financial information to be reasonable at the time made, it being recognized by the Banks that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There are no facts known to Borrower (other than matters of a general economic nature) that have had or could reasonably be expected to have a Material Adverse Effect that have not been disclosed herein or in the other documents, certificates and written statements referred to in this Section 5.9.

5.10 Insurance. Borrower and its Subsidiaries have in full force insurance coverage of their respective properties, assets and business (including casualty, general liability, products liability and business interruption insurance) that is (a) no less protective in any material respect than the insurance Borrower and its Subsidiaries have carried in accordance with their past practices or (b) prudent given the nature of the business of Borrower and its Subsidiaries and the prevailing practice among companies similarly situated.

5.11 Environmental Matters. (a) Borrower and each of its Subsidiaries is in compliance in all material respects with all Environmental Laws the non-compliance with which can reasonably be expected to have a Material Adverse Effect and (b) there has been no "release or threatened release of a hazardous substance" (as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.) or any other release, emission or discharge into the environment of any hazardous or toxic substance, pollutant or other materials from Borrower's or its Subsidiaries' property other than as permitted under applicable Environmental Law and other than those which would not have a Material Adverse Effect. Other than disposals for which Borrower has been indemnified in full or disposals prior to the Closing Date which would not have a Material Adverse Effect, all "hazardous waste" (as defined by the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (1976) and the regulations thereunder, 40 CFR Part 261 ("RCRA")) generated at Borrower's or any Subsidiaries' properties and removed for disposal have in the past been and shall continue to be disposed of at sites which maintain valid permits under RCRA and any applicable state or local Environmental Law.

5.12 Performance of Agreements. Neither Borrower nor any of its Subsidiaries is in default in the performance, observance or fulfillment of any of the obligations, covenants, or conditions contained in any contractual obligation of Borrower or of such Subsidiary, except where the consequences, direct or indirect, of such default or defaults, if any, has not had and

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could not reasonably be expected to have a Material Adverse Effect and no condition exists that, with the giving of due notice or the lapse of time or both, would constitute such a default, except where the consequences, direct or indirect, of such default, if any, has not had and could not reasonably be expected to have a Material Adverse Effect.

5.13 Solvency. After giving effect to the transactions contemplated by the Loan Documents and the payment of all fees related thereto and hereto, as of the Closing Date Borrower and its Subsidiaries on a consolidated basis are Solvent and each of the Material Subsidiaries is Solvent.

SECTION 6  
AFFIRMATIVE COVENANTS

So long as any Loan remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitments remains in force, Borrower shall, and shall cause each of its Subsidiaries to:

6.1 Reporting Requirements. Deliver to the Agent in form and detail satisfactory to the Agent and the Requisite Banks, with sufficient copies for each Bank:

(a) as soon as available and in any event within 50 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of Borrower, the consolidated balance sheet of Borrower and its Subsidiaries as of the end of such Fiscal Quarter and the consolidated statements of income and cash flows of Borrower and its Subsidiaries for the period commencing at the end of the previous Fiscal Year and ending with the end of such Fiscal Quarter, certified by the chief accounting officer of Borrower as fairly presenting the financial condition of Borrower and its Subsidiaries as at the dates indicated and the results of their operations for the periods indicated, subject to changes resulting from audit and normal year-end adjustment;

(b) as soon as available and in any event within 120 days after the end of each Fiscal Year of Borrower, a copy of the annual audit report for such Fiscal Year for Borrower and its Subsidiaries, containing financial statements (including a consolidated balance sheet, consolidated statements of income and shareholders' equity and cash flows of Borrower and its Subsidiaries) for such year certified by Ernst & Young LLP or other nationally recognized independent public accountants acceptable to the Requisite Banks. The certification shall be unqualified (as to going concern, scope of audit and disagreements over the accounting or other treatment of offsets) and shall state that such consolidated financial statements present fairly the financial position of Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise stated therein) and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and

(c) together with each delivery of the reports of Borrower and its Subsidiaries pursuant to subsections (a) and (b) above, a Compliance Certificate for the Fiscal Quarter or Fiscal Year, as applicable, executed by the chief accounting officer of Borrower.

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6.2 Certificates, Notices and Other Information. Deliver to the Agent in form and detail satisfactory to the Agent and the Requisite Banks, with sufficient copies for each Bank:

(a) as soon as possible and in any event within five days after any Responsible Officer of Borrower becoming aware of the occurrence of any Change of Control and of each Event of Default and of each Default continuing on the date of such statement, a statement of the chief accounting officer of Borrower setting forth details of such Event of Default or event and the action which Borrower has taken and proposes to take with respect thereto;

(b) promptly after any significant change in accounting policies or reporting practices, notice and a description in reasonable detail of such change;

(c) promptly and in any event within 30 days after Borrower or

any ERISA Affiliate becomes aware that any ERISA Event referred to in clause (i) of the definition of ERISA Event with respect to any Pension Plan has occurred which might result in liability to the PBGC a statement of the chief accounting officer of Borrower describing such ERISA Event and the action, if any, that Borrower or such ERISA Affiliate has taken or proposes to take with respect thereto;

(d) promptly and in any event within 10 days after Borrower or any ERISA Affiliate becomes aware that any ERISA Event (other than an ERISA Event referred to in (c) above) with respect to any Pension Plan has occurred which might result in liability to the PBGC, a statement of the chief accounting officer of Borrower describing such ERISA Event and the action, if any, that Borrower or such ERISA Affiliate has taken or proposes to take with respect thereto;

(e) promptly and in any event within five Business Days after receipt thereof by Borrower or any ERISA Affiliate from the PBGC, copies of each notice from the PBGC of its intention to terminate any Pension Plan or to have a trustee appointed to administer any Pension Plan;

(f) promptly and in any event within seven Business Days after receipt thereof by Borrower or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by Borrower or any ERISA Affiliate concerning (w) the imposition of Withdrawal Liability by a Multiemployer Plan, (x) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (y) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA or (z) the amount of liability incurred, or expected to be incurred, by Borrower or any ERISA Affiliate in connection with any event described in clause (w), (x) or (y) above;

(g) promptly after the commencement thereof, notice of all material actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting Borrower or any of its Subsidiaries, of the type described in Section 5.4;

(h) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports that Borrower or any of its Subsidiaries sends to its

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stockholders generally, and copies of all regular, periodic and special reports, and all registration statements, that Borrower or any of its Subsidiaries files with the Securities and Exchange Commission or any governmental authority that may be substituted therefor, or with any national securities exchange;

(i) promptly after the furnishing thereof, copies of any material correspondence, statement or report furnished to any other holder of the securities of Borrower or any of its Subsidiaries pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Banks pursuant to any other clause of this Section 6.2;

(j) promptly after the occurrence thereof, notice of the receipt by Borrower or any of its Subsidiaries of any notice, order, directive or other communication from a governmental authority alleging violations of or noncompliance with any Environmental Law which could reasonably be expected to have a Material Adverse Effect; and

(k) such other information respecting the condition or operations, financial or otherwise, of Borrower or any of its Subsidiaries as any Bank through the Agent may from time to time reasonably request.

6.3 Material Subsidiary Guaranty. Borrower will cause each of its Material Subsidiaries promptly to execute and deliver an instrument of joinder to the Material Subsidiary Guaranty, together with such other documents and agreements including, without limitation, legal opinions and resolutions as the Agent or the Requisite Banks may reasonably request.

6.4 Corporate Existence, Etc. Borrower will, and will cause each of its Subsidiaries to, at all times maintain its fundamental business and preserve and keep in full force and effect its corporate existence (except as permitted under Section 7.6) and all rights, franchises and licenses necessary or desirable in the normal conduct of its business; provided, however, that Borrower shall not be required to maintain any such rights, franchises or licenses or the corporate existence of any Subsidiary (other than any Material Subsidiary) if the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.5 Access and Visitation Rights. Borrower will and will cause each of its Subsidiaries to, upon reasonable notice and at any reasonable time during normal business hours and from time to time, permit the Agent or any of the Banks or any agents or representatives thereof to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of Borrower and any of its Subsidiaries with any of their officers or directors and independent public accountants (and by this provision Borrower authorizes said accountants to discuss with the Banks the finances and affairs of Borrower and its Subsidiaries), provided that Borrower shall have the right to have a representative of Borrower present at any such discussion with such officers, directors and independent public accountants.

6.6 Payment of Taxes, Etc. Borrower will and will cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (a) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (b) all lawful claims that, if unpaid, might by law become a lien upon their property, provided, however, that neither

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Borrower nor any such Subsidiary shall be required to pay or discharge any such tax, assessment, charge or claim (i) that is being contested in good faith and by proper proceedings and for which appropriate reserves are being maintained, or (ii) the failure to pay or discharge which would not have a Material Adverse Effect.

6.7 Maintenance of Properties, Etc. Borrower will and will cause each of its Subsidiaries to maintain and preserve, all of its properties with respect to which failure to so maintain and preserve would have a Material Adverse Effect.

6.8 Compliance with Laws, Etc. Borrower will, and will cause each of its Subsidiaries to, perform and promptly comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority (including, without limitation, all Environmental Laws and ERISA) other than those with which the failure to comply would not have a Material Adverse Effect.

6.9 Maintenance of Insurance. Borrower will and will cause each of its Subsidiaries to maintain insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks (a) as are usually insured by companies engaged in similar businesses and owning similar properties in the same general areas in which Borrower or such Subsidiary operates, (b) with responsible and reputable insurance companies or associations reasonably satisfactory to Banks and (c) subject to market



availability and reasonable price, in amounts no less protective than past practices.

6.10 Employment of Technology, Disposal of Hazardous Waste, Etc. Borrower will and will cause each of its Subsidiaries to (a) employ in connection with its use of its property appropriate technology (including, without limitation, appropriate secondary containment) to maintain compliance with any applicable Environmental Law, (b) take all actions identified as necessary to comply with Environmental Law, (c) dispose of any and all "hazardous waste" generated at any of its properties only at facilities and with carriers maintaining valid permits under RCRA and any applicable state and local Environmental Law, and (d) use best efforts to obtain certificates of disposal from all contractors employed by Borrower in connection with the transport or disposal of any "hazardous waste" generated at any of its properties except, with respect to each of the foregoing clauses (a) through (d) where the failure to perform or comply with any of the foregoing would not have a Material Adverse Effect.

6.11 Keeping of Books, Etc. Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and accounts, in which full and correct entries shall be made of all financial transactions and the assets and business of Borrower and each of its Subsidiaries in accordance with GAAP consistently applied and consistent with prudent business practices.

6.12 Further Assurances. Borrower will and will cause each of its Subsidiaries to promptly, upon request by the Agent or any Bank through the Agent, correct, any defect or error that may be discovered in any Loan Document or in the execution, acknowledgment or recordation thereof. Promptly upon request by the Agent or any Bank through the Agent, Borrower also will, and will cause each Subsidiary to, do, execute, acknowledge, deliver, record, and will cause any such Subsidiary to promptly do, execute, acknowledge, deliver,

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record, re-record any and all such further acts, termination statements, certificates, assurances and other instruments as the Agent or any Bank through the Agent may reasonably require from time to time in order (a) to carry out more effectively the purposes of this Agreement or any other Loan Document, and (b) to better assure, convey, grant, assign, transfer, preserve, protect and confirm unto the Agent and the Banks the rights granted or now or hereafter intended to be granted to the Agent and/or the Banks under any Loan Document or under any other instrument executed in connection with any Loan Document to which Borrower is or may become a party.

6.13 Use of Proceeds. Borrower may use the proceeds of Loans to refinance existing Debt and for working capital and other general purposes, including Non-Hostile Acquisitions permitted by Section 7.4(c).

#### SECTION 7 NEGATIVE COVENANTS

So long as any Loan remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitments remains in force, Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

7.1 Debt. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume, or otherwise become or remain directly or indirectly liable with respect to, any Debt, except:

- (a) Debt incurred pursuant to this Agreement;

- (b) any Material Subsidiary Guaranty;
- (c) Debt in respect of Capital Lease Obligations;
- (d) Contingent Obligations permitted by Section 7.5;

(e) Borrower and its Subsidiaries may remain liable with respect to any Debt of Borrower and its Subsidiaries existing on the Closing Date (all of which Debt that consists of letters of credit and surety and performance bonds outstanding on the Closing Date and all other of such Debt that is in excess of \$1,000,000 in outstanding principal amount is described in Schedule 7.1) and refinancing thereof; provided that such refinanced Debt shall be on terms no less favorable to Borrower (other than in respect to market interest rate changes) and its Subsidiaries than the Debt being replaced and after giving effect thereto would not result in a Default or Event of Default;

(f) Borrower and its Subsidiaries may become and remain liable with respect to intercompany Debt; provided that all of the intercompany Debt of Borrower to any Subsidiary of Borrower shall be subordinated to the Obligations in accordance with the terms set forth in Exhibit I;

(g) Debt of any Person which becomes a Subsidiary of Borrower or is merged into Borrower or any Subsidiary of Borrower in an amount permitted under Section 7.4(c); and provided such Debt existed at the time such Person became a Subsidiary of Borrower or was so

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merged and was not created in contemplation of such event and before and immediately after giving effect to such event no Event of Default shall exist and Borrower shall be in compliance with Section 7.7); provided further that any Debt of a Person that is merged into Borrower, is only permitted to the extent it is unsecured unless after giving effect to such merger Borrower is in compliance with Section 7.2;

(h) without duplication of subsections (c), (e) and (g) of this Section 7.1, Borrower and its Subsidiaries may become and remain liable with respect to purchase money Debt in an aggregate principal amount outstanding at any time not in excess of 15% of Consolidated Tangible Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)); provided that such Debt is secured only by the property purchased with such Debt; provided further that the loan-to-value ratio of such Debt does not exceed 100% with respect to personal property and 80% with respect to real property, in each case, at the time of incurrence of any such Debt;

(i) the Subsidiaries of Borrower may become and remain liable with respect to Debt if such Debt is permitted by the last proviso of this Section 7.1;

(j) Borrower and its Subsidiaries may become and remain liable in respect of industrial revenue bonds issued on behalf of Borrower or its Subsidiaries;

(k) Debt permitted by Section 7.13; and

(l) without duplication of any of the foregoing clauses, Borrower may create, incur, assume or suffer to exist Debt; provided that such Debt is not secured by any assets of Borrower or any of its Subsidiaries other than as permitted by Section 7.2;

provided that, notwithstanding subsections (a) through (l) of this Section 7.1, the Subsidiaries of Borrower may not create, incur, assume or

suffer to exist any Subsidiary Debt in an aggregate principal amount outstanding at any time exceeding 15% of Consolidated Tangible Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)); provided further that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.1.

7.2 Liens and Related Matters. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or permit to exist any Lien, or file or execute or agree to the execution of any financing statement, on or with respect to, the assets of Borrower or any Subsidiary (including any document or instrument in respect of goods or accounts receivable), whether now owned or hereafter acquired, or any income or profits therefrom, except:

(a) Liens for taxes, assessments or other governmental charges or levies not yet due and payable, and not required to be paid by Borrower or any of its Subsidiaries under Section 6.6;

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(b) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, workmen, employees, materialmen and other Liens imposed by law and not required to be paid by Borrower or any of its Subsidiaries under Section 6.6;

(c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(d) minor Liens on the property or assets of Borrower or any of its Subsidiaries which do not in the aggregate materially detract from the value of such property or assets or materially impair their use in the operation of the business of Borrower or such Subsidiary, as the case may be;

(e) the rights of set-off and banker's liens granted or confirmed to the Banks under this Agreement or any other Loan Document and rights of set-off and banker's liens granted or confirmed to the holders of other Debt permitted under this Agreement or any other Loan Document;

(f) any Liens in existence on property of any Person at the time such Person becomes a Subsidiary of Borrower or is merged into any Subsidiary of Borrower and not created in contemplation of such event;

(g) attachment, judgment and other similar Liens arising in connection with legal proceedings, provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; and provided that any such judgment does not constitute an Event of Default;

(h) Liens created by (i) any Subsidiary of Borrower in favor of Borrower or (ii) any Subsidiary of Borrower in favor of another Subsidiary of Borrower, securing obligations of such Subsidiary owing to Borrower or another Subsidiary of Borrower (which Liens by their terms may not be transferred except to Borrower or another Subsidiary of Borrower);

(i) Liens created hereunder or under any other Loan Document;

(j) Easements, rights-of-way, zoning and similar restrictions

and other similar charges or encumbrances now or hereafter existing not interfering with the ordinary conduct of business of Borrower or any of its Subsidiaries;

(k) Liens and security interests securing purchase money Debt permitted under Section 7.1(h) and Liens and security interests which are Capital Lease Obligations; provided, however, that no Lien or security interest referred to in this subsection (k) shall extend to or cover any property other than the related property being acquired or leased (as the case may be);

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(l) Liens on real or personal property required in connection with the issuance of industrial revenue bonds on behalf of Borrower or its Subsidiaries;

(m) Liens existing on the Closing Date securing Debt listed on Schedule 7.1 and any refinancings thereof permitted pursuant to Section 7.1(e);

(n) Liens created or incurred in connection with transactions permitted by Section 7.13; and

(o) without duplication of any of the foregoing clauses, other Liens securing obligations of Borrower or its Subsidiaries in an aggregate outstanding principal amount not exceeding \$10,000,000 at any time.

7.3 Negative Pledges; Restrictions on Dividends, Etc. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly:

(a) enter into or remain a party to any agreement prohibiting the creation, incurrence or assumption of any Lien on or with respect to any assets of Borrower, or any Subsidiary, whether now owned or hereafter acquired, or any income or profits therefrom, except for such prohibitions contained in (A) this Agreement and (B) instruments governing any Debt permitted under Section 7.1.

(b) Create or permit to exist or become effective any restriction of any kind on the ability of any Subsidiary to (i) pay dividends or make any other distribution on or with respect to any of its stock or other ownership interests owned by Borrower or any Subsidiary of Borrower, (ii) pay any Debt owed to Borrower or any Subsidiary of Borrower, (iii) make loans or advances to Borrower or any other Subsidiary of Borrower, or (iv) transfer any of its assets to Borrower or any Subsidiary of Borrower, except for such prohibitions contained in this Agreement and for such prohibitions contained in the Senior Debt Documents, and with respect to clause (iv) only, such prohibitions contained in the Dutch Facility.

7.4 Investments and Acquisitions. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, make or own any Investment in any Person or make, or commit to make any acquisition (whether by purchase of capital stock or assets, merger or otherwise), except:

(a) Cash Equivalents;

(b) Investments that constitute intercompany Debt and are otherwise permitted by Section 7.1; provided that all of the Debt of Borrower to any Subsidiary of Borrower shall be expressly subordinated to the Obligations in accordance with the terms set forth in Exhibit O;

(c) Non-Hostile Acquisitions by Borrower or any of its Subsidiaries of assets constituting a business unit or the capital stock of any Person provided that (i) Borrower is the surviving entity following such

acquisition of assets or capital stock, (ii) Borrower continues in the same type of business currently conducted without material changes in the nature of its business and (iii) Borrower is capable of incurring additional Debt in connection with such

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acquisition of assets or capital stock without violating any debt or covenant restrictions and without creating an Event of Default;

(d) Borrower and its Subsidiaries may make and maintain Investments in Subsidiaries;

(e) Investments in Joint Ventures existing on the Closing Date and set forth on Schedule 7.4, and after the Closing Date Investments in Joint Ventures not listed on Schedule 7.4 ("Additional Joint Ventures"); provided that (i) any such Joint Venture is in and continues in the same type of business as is conducted by Borrower on the Closing Date, (ii) none of Borrower or any Material Subsidiary is a general partner (or would be liable to the extent of a general partner) of any such Joint Venture, and (iii) at the time of any Investment in an Additional Joint Venture the aggregate Investments made by Borrower and its Subsidiaries in Additional Joint Ventures (after giving effect to the Investment to be made) shall not exceed 15% of the Consolidated Tangible Net Worth of Borrower and its Subsidiaries;

(f) Investments in connection with transactions permitted by Section 7.13; and

(g) without duplication of any of the foregoing clauses, other Investments in an aggregate principal amount not exceeding \$10,000,000 in any Fiscal Year; provided that any acquisition must be a Non-Hostile Acquisition.

7.5 Contingent Obligations. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or become or be liable with respect to any Contingent Obligation, except:

(a) Borrower and its Subsidiaries may become and remain liable with respect to guaranties resulting from endorsement of negotiable instruments for collection or deposit in the ordinary course of business;

(b) any Material Subsidiary of Borrower may create and become liable with respect to the Material Subsidiary Guaranty;

(c) Borrower may become and remain liable with respect to reimbursement obligations under the Letters of Credit and Borrower may become and remain liable with respect to any other Contingent Obligation created hereunder or under any other Loan Document;

(d) Borrower and its Subsidiaries may become and remain liable with respect to any swap agreement, cap agreement, collar agreement or other similar agreement or arrangement designed to protect Borrower or any of its Subsidiaries against fluctuations in interest rates or commodity prices;

(e) Borrower may become and remain liable with respect to guaranties relating to (x) any Debt of its Subsidiaries set forth on Schedule 7.1 and any refinancings thereof permitted pursuant to Section 7.1(e) and (y) without duplication, Debt of its Subsidiaries in an aggregate

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outstanding amount not to exceed at any time 15% of Consolidated Tangible Net Worth (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b));

(f) Borrower and its Subsidiaries may become and remain liable with respect to Contingent Obligations relating to advance payment guaranties, rent guaranties with respect to leases and performance guaranties;

(g) Borrower and its Subsidiaries may become and remain liable with respect to reimbursement obligations under letters of credit other than Letters of Credit issued hereunder;

(h) the Subsidiaries of Borrower may become and remain liable with respect to Contingent Obligations of the type described in clause (e) of the definition of "Debt" in respect of Debt of Borrower or a Subsidiary of Borrower if such Contingent Obligation is permitted by the provisos following subsection (j) of this Section 7.5;

(i) Contingent Obligations created in connection with transactions permitted by Section 7.13; and

(j) Borrower and its Subsidiaries may create, incur, assume or suffer to exist any obligations, contingent or otherwise (including, without limitation, obligations as account party under any unsecured letters of credit other than the Letters of Credit), solely in respect of surety and performance bonds and similar obligations; provided that the aggregate amount of all such obligations (including those outstanding on the date hereof) does not exceed \$150,000,000 for Borrower and its Subsidiaries; provided further that such obligations are incurred in the ordinary course of the business of Borrower and its Subsidiaries. The surety and performance bonds in effect on the date hereof are set forth on Schedule 7.1;

provided that, notwithstanding clauses (a) through (j) of this Section 7.5, the Subsidiaries of Borrower may not create, incur, assume or suffer to exist any Subsidiary Debt in an aggregate principal amount outstanding at any time exceeding 15% of Consolidated Tangible Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)); provided further that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.5.

7.6 Restrictions on Fundamental Changes. Borrower will not, and will not permit any of its Subsidiaries to merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or any portion of its assets or the assets of any division (whether now owned or hereafter acquired) to any Person, except if no Event of Default or Default has occurred and is continuing or would result from the following:

(a) Borrower or any Subsidiary of Borrower may merge or consolidate with or into another entity (including any Subsidiary of Borrower); provided that with respect to any merger with Borrower, Borrower shall be the continuing or surviving corporation and with respect to all other mergers, the continuing or surviving corporation shall be a Subsidiary of Borrower;

(b) Borrower and its Subsidiaries may sell or otherwise dispose of inventory in the ordinary course of business;

(c) Borrower and its Subsidiaries may dispose of used, obsolete, worn out or surplus property in the ordinary course of business;

(d) any Wholly-Owned Subsidiary may transfer any assets to Borrower or to another Wholly-Owned Subsidiary and any other Subsidiary may transfer any assets to Borrower or to another Wholly-Owned Subsidiary;

(e) Borrower may transfer any assets to another Wholly-Owned Subsidiary which has executed and delivered the Material Subsidiary Guaranty, or instrument of joinder with respect thereto, and has otherwise complied with Section 6.3;

(f) Borrower and its Subsidiaries may sell or dispose of assets permitted by Section 7.13 provided that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.6; and

(g) without duplication of any of the foregoing clauses, Borrower or any of its Subsidiaries may dispose of up to 15% of its Consolidated Total Assets during any 12-month period or, up to 30% of its Consolidated Total Assets from Closing until the date of such Disposition, and, if the Net Proceeds from any Disposition are in excess of 15% of Consolidated Total Assets of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)) ("Excess Net Proceeds"), such Excess Net Proceeds shall, at Borrower's election, either be: (i) reinvested in the business of Borrower or such Subsidiary within 12 months from the date of the receipt of the proceeds from such disposition, or (ii) applied to prepay Outstanding Obligations as provided in Section 2.5 and to reduce the combined Commitments as provided in Section 2.6.

#### 7.7 Financial Covenants.

(a) Minimum Consolidated Tangible Net Worth. Borrower will not permit Consolidated Tangible Net Worth at the end of any Fiscal Quarter to be less than (i) 80% of Borrower's Consolidated Tangible Net Worth at September 30, 1997 plus (ii) 50% of the sum of Consolidated Net Income for each Fiscal Quarter beginning with the fourth Fiscal Quarter of Fiscal Year 1997 (without reduction for losses, but adding back Durco Integration and Restructuring Expenses on an after-tax basis) plus (iii) 50% of Equity Proceeds received by Borrower after the Closing Date.

(b) Leverage Ratio. Borrower will not permit the Leverage Ratio to exceed 3.25:1.00 at the end of any Fiscal Quarter.

7.8 Dividends, Etc. Borrower will not, and will not permit any of its Subsidiaries to, declare or pay any dividends, purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding, or any warrants or other rights to acquire such stock, return any capital to its stockholders as such, or make any distribution of assets to its stockholders as such, or permit any of its Subsidiaries to purchase, redeem, retire or otherwise

acquire for value any stock of Borrower or any warrants or other rights to acquire such stock, except that:

(a) Borrower may declare and deliver dividends and distributions payable in common stock of Borrower;

(b) Subsidiaries wholly-owned by Borrower except for directors' qualifying shares or foreign qualifying shares (each a "Wholly-Owned Subsidiary") may declare, pay and deliver dividends and distributions payable in cash, common stock or other assets to Borrower or any other Subsidiary of Borrower; and

(c) so long as no Event of Default or Default has occurred and is continuing or would be caused thereby, Borrower or any Subsidiary of Borrower may purchase, redeem, retire or otherwise acquire for value its capital stock and may declare and pay dividends payable in cash on its capital stock.

7.9 Change in Business. Subject to Section 7.6, Borrower will not and will not permit any division or Subsidiary to make, any material change in the nature or conduct of their respective businesses as carried on at the date hereof, except as a result of any sales of assets permitted under this Agreement.

7.10 ERISA. Borrower will not (a) permit any Pension Plan to: (i) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (ii) fail to comply with ERISA or any other applicable Laws; (iii) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA); or (iv) terminate in any manner, which, with respect to each event listed above, could reasonably be expected to result in liability exceeding \$10,000,000, or (b) withdraw, completely or partially, from any Multiemployer Plan if to do so could reasonably be expected to result in liability exceeding \$10,000,000.

7.11 Charter and Bylaws. Borrower will not and will not permit any Material Subsidiary to amend, modify or change in any manner, the Certificate of Incorporation or the Bylaws of Borrower or any such Subsidiary other than an amendment to the Certificate of Incorporation or Bylaws which would not materially impair the interests or the rights of the Banks under any Loan Document.

7.12 Transactions with Shareholders and Affiliates. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any direct or indirect holder of 5% or more of any class of equity Securities of Borrower or any Subsidiary, on terms that are less favorable to Borrower or that Subsidiary, as the case may be, than those that might be obtained at the time from Persons who are not such a holder or affiliate; provided that the foregoing restriction shall not apply to (a) any transaction between Borrower and any Wholly-Owned Subsidiary or between any of its Wholly-Owned Subsidiaries or (b) reasonable and customary fees paid to members of the Boards of Directors, officers, employees or consultants of Borrower and its Subsidiaries for services rendered to Borrower or any such Subsidiary in the ordinary course of business, together with customary indemnities in connection therewith and in accordance with applicable

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law, (c) amounts payable under agreements with affiliates existing on the Closing Date (d) contributions to employee benefit plans of Borrower or its Subsidiaries, and (e) dividends and distributions permitted under Section 7.8).

7.13 Sales of Accounts Receivable. Borrower may, and may permit its Subsidiaries to: (a) in any calendar year, sell, without recourse, accounts receivable arising in the ordinary course of business in an aggregate face amount not exceeding \$25,000,000, (b) in any calendar year, sell, with recourse, accounts receivable arising in the ordinary course of business in an amount not exceeding 10% of Consolidated Tangible Net Worth as at the beginning of such calendar year and (c) enter into one or more transactions or programs (each such transaction or program being referred to herein as a "Receivables Program") involving (i) the sale or other financing by Borrower or any of its Subsidiaries, without recourse based solely upon a default by one or more account debtors in the payment of any accounts receivable included in the



applicable Receivables Program, of accounts receivable arising in the ordinary course of business of Borrower or any of its Subsidiaries or (ii) the incurrence by Borrower or any of its Subsidiaries of Non- Recourse Debt secured by Liens on accounts receivable arising in the ordinary course of business of Borrower or any of its Subsidiaries if Borrower shall have delivered to each Bank, at least 15 Business Days prior to the consummation of any Receivables Program, a copy of the proposed terms and conditions of such Receivables Program and, if within the 15 Business Day period the Requisite Banks shall not have objected; provided that in the case of clauses (a) and (b) above, such sale of accounts receivable shall be for a net cash sales price of no less than 70% of the face amount thereof; and provided, further, that Borrower and its Subsidiaries shall not sell or otherwise finance any accounts receivable pursuant to a Receivables Program if the aggregate amount of the Receivables Programs at the time of any such sale or financing would exceed 50% of the aggregate amount of the accounts receivable of Borrower and its Subsidiaries at such time (after giving effect to any sales permitted by clauses (a) and (b) but without giving effect to sales made under such Receivables Programs).

#### SECTION 8

##### EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT

8.1 Events of Default. The existence or occurrence of any one or more of the following events, whatever the reason therefor and under any circumstances whatsoever, shall constitute an Event of Default:

(a) Failure to Make Payments When Due. Borrower shall fail to pay any principal of any Loan when the same becomes due and payable, whether at stated maturity, by acceleration, by notice of prepayment or otherwise; failure to pay when due any amount payable to the Issuing Bank in reimbursement of any drawing under any Letter of Credit; or failure to pay any interest on any Loan or any other fees or other Obligations due under this Agreement within three Business Days of the date due; or

(b) Breach of Warranty. Any representation or warranty made by Borrower herein (or any of its officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed made; or

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(c) Breach of Certain Covenants.

(i) Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 6.4, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.8, 7.9, 7.10, 7.12, or 7.13; or

(ii) Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 6.8, 6.9, 6.10, 7.7 or 7.11 if such failure shall remain unremedied for 10 days after the earlier of (A) the day on which a Responsible Officer of Borrower first obtains knowledge of such failure, or (B) the day on which written notice thereof shall have been given to Borrower by the Agent or any Bank; or

(iii) Borrower or any of its Subsidiaries shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or in any other Loan Document, on its part to be performed or observed if such failure shall remain unremedied for 30 days after the earlier of (A) the day on which a Responsible Officer of Borrower first obtains knowledge of such failure, or (B) the day on which written notice thereof shall have been given to Borrower by the Agent or any Bank; or

(d) Default in Other Agreements. Borrower or any of its Subsidiaries shall fail to pay any principal of or premium or interest on any

Debt which is outstanding in a principal amount of at least \$10,000,000 (or its equivalent in any Approved Offshore Currency) in the aggregate (but excluding Debt arising under this Agreement) of such Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; or

(e) Debtor Relief Laws, Etc. Borrower or any of Material Subsidiaries institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any material part of its property, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for 30 days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its property is instituted without the consent of that Person and continues undismissed or unstayed for 30 days; or

(f) Judgments and Attachments. Any judgment or order for the payment of money in excess of \$10,000,000 (or its equivalent in any Approved Offshore Currency) shall be rendered against Borrower or any of its Subsidiaries, such judgment or order shall remain

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unsatisfied for a period of at least 30 days and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect. Any non-monetary judgment or order shall be rendered against Borrower or any of its Subsidiaries that is materially adverse to Borrower and its Subsidiaries taken as a whole, such judgment or order shall remain unsatisfied for a period of at least 30 days and either (i) enforcement proceedings shall have been commenced by any Person upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Guaranties. Any provision of the Material Subsidiary Guaranty after delivery thereof or otherwise shall for any reason cease to be valid and binding on any Material Subsidiary executing the Material Subsidiary Guaranty or such Material Subsidiary shall so state in writing; or

(h) ERISA. An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds the Threshold Amount; or

(iii) Borrower or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$10,000,000; or

(i) Change of Control. A Change of Control shall have occurred.

8.2 Remedies Upon Event of Default. Without limiting any other rights or remedies of the Agent or the Banks provided for elsewhere in this Agreement, or the other Loan Documents, or by applicable Laws, or in equity, or otherwise:

(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of Default described in Section 8.1(e):

(1) the Commitments and all other obligations of the Agent or the Banks and all rights of Borrower and any Material Subsidiaries under the Loan Documents shall be suspended without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Banks or the Requisite Banks, as required hereunder, may waive an Event of Default or, without waiving, determine, upon terms and conditions satisfactory to the Banks or Requisite Banks, as the case may be, to reinstate the Commitments and make further Extensions of Credit, which waiver or determination shall apply equally to, and shall be binding upon, all the Banks;

(2) the Issuing Bank may, with the approval of the Agent on behalf of the Requisite Banks, demand immediate payment by Borrower of an amount equal to the aggregate amount of all outstanding Letters of Credit to be held by the Issuing Bank in an interest-bearing cash collateral account as collateral hereunder; and

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(3) the Requisite Banks may request the Agent to, and the Agent thereupon shall, terminate the Commitments and/or declare all or any part of the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(b) Upon the occurrence of any Event of Default described in Section 8.1(e):

(1) the Commitments and all other obligations of the Agent or the Banks and all rights of Borrower and any Material Subsidiary under the Loan Documents shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all the Banks may waive the Event of Default or, without waiving, determine, upon terms and conditions satisfactory to all the Banks, to reinstate the Commitments and make further Extensions of Credit, which determination shall apply equally to, and shall be binding upon, all the Banks;

(2) an amount equal to the aggregate amount of all outstanding Letters of Credit shall be immediately due and payable to the Issuing Bank without notice to or demand upon Borrower, which are expressly waived by Borrower, to be held by the Issuing Bank in an interest-bearing cash collateral account as collateral hereunder; and

(3) the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(c) Upon the occurrence of any Event of Default, the Banks and the Agent, or any of them, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to notices expressly provided for in any Loan Document), may proceed (but only with the consent of the Requisite Banks) to protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and any Material Subsidiary and such other rights and remedies as are provided by Laws or equity.

(d) The order and manner in which the Banks' rights and remedies are to be exercised shall be determined by the Requisite Banks in their sole discretion, and all payments received by the Agent and the Banks, or any of them, shall be applied first to Attorney Costs incurred by the Agent or any Bank, and thereafter paid pro rata to the Banks in the same proportions that the aggregate Obligations owed to each Bank under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Banks, without priority or preference among the Banks. Regardless of how each Bank may treat payments for the purpose of its own accounting, for the purpose of computing Borrower's Obligations hereunder, payments shall be applied first, to the costs and expenses of the Agent and the Banks, as set forth above, second, to the payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application (ratably, and without duplication,

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according to the accrued and unpaid interest due under each of the Loan Documents), and third, to the payment of all other amounts (including principal and fees) then owing to the Agent or the Banks under the Loan Documents. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or prevent the exercise, or continued exercise, of rights or remedies of the Banks hereunder or thereunder or at Laws or in equity.

#### SECTION 9 THE AGENT

9.1 Appointment and Authorization; "Agent". (a) Each Bank hereby irrevocably (subject to Section 9.9) appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to the Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Bank shall act on behalf of the Banks with

respect to any Letters of Credit issued by it and the documents associated therewith until such time and except for so long as the Agent may agree at the request of the Requisite Banks to act for such Issuing Bank with respect thereto; provided, however, that the Issuing Bank shall have all of the benefits and immunities (i) provided to the Agent in this Section 9 with respect to any acts taken or omissions suffered by the Issuing Bank in connection with Letters of Credit issued by it or proposed to be issued by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term "Agent", as used in this Section 9, included the Issuing Bank with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to the Issuing Bank.

9.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.3 Liability of Agent. None of the Agent-Related Persons shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Banks for

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any recital, statement, representation or warranty made by Borrower or any Subsidiary or Affiliate of Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of Borrower or any of Borrower's Subsidiaries or Affiliates.

9.4 Reliance by Agent. (a) The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrower), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Requisite Banks as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Requisite Banks or all Banks, if required hereunder, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Banks.

(b) For purposes of determining compliance with the conditions specified in Section 4.1, each Bank that has executed this Agreement shall be

deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Agent to such Bank for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to the Bank.

9.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Agent for the account of the Banks, unless the Agent shall have received written notice from a Bank or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Agent will notify the Banks of its receipt of any such notice. The Agent shall take such action with respect to such Default or Event of Default as may be requested by the Requisite Banks in accordance with Section 8; provided, however, that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Banks.

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9.6 Credit Decision. Each Bank acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Agent hereinafter taken, including any review of the affairs of Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower hereunder. Each Bank also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower. Except for notices, reports and other documents expressly herein required to be furnished to the Banks by the Agent, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Borrower which may come into the possession of any of the Agent-Related Persons.

9.7 Indemnification of Agent. Whether or not the transactions contemplated hereby are consummated, the Banks shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so), pro rata, from and against any and all Indemnified Liabilities; provided, however, that no Bank shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank shall reimburse the Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent is

not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Agent.

9.8 Agent in Individual Capacity. BofA and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with Borrower and its Subsidiaries and Affiliates as though BofA were not the Agent or the Issuing Bank hereunder and without notice to or consent of the Banks. The Banks acknowledge that, pursuant to such activities, BofA or its Affiliates may receive information regarding Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of Borrower or such Subsidiary) and acknowledge that the Agent shall be under no obligation to provide such information to them. With respect to its Loans, BofA shall have the same rights

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and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent or the Issuing Bank.

9.9 Successor Agent. The Agent may, and at the request of the Requisite Banks shall, resign as Agent upon 30 days' notice to the Banks. If the Agent resigns under this Agreement, the Requisite Banks shall appoint from among the Banks a successor Agent for the Banks which successor agent shall be approved by Borrower. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Banks and Borrower, a successor agent from among the Banks. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 9 and Sections 10.3 and 10.11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is 30 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Banks shall perform all of the duties of the Agent hereunder until such time, if any, as the Requisite Banks appoint a successor agent as provided for above. Notwithstanding the foregoing, however, BofA may not be removed as the Agent at the request of the Requisite Banks unless BofA shall also simultaneously be replaced as "Issuing Bank" hereunder pursuant to documentation in form and substance reasonably satisfactory to BofA.

#### SECTION 10 MISCELLANEOUS

10.1 Cumulative Remedies; No Waiver. The rights, powers, privileges and remedies of the Agent and the Banks provided herein or other Loan Document are cumulative and not exclusive of any right, power, privilege or remedy provided by Laws or equity. No failure or delay on the part of the Agent or any Bank in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy. The terms and conditions of Section 9 are inserted for the sole benefit of the Agent and the Banks; the same may be waived in whole or in part, with or without terms or conditions, in respect of any Loan or Letter of Credit without prejudicing the Agent's or the Banks' rights to assert them in whole or in part in respect of any other Loan.

10.2 Amendments; Consents. No amendment, modification, supplement, extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by Borrower therefrom, may in any event be effective unless in writing signed by the Requisite Banks (and, in the case of any amendment, modification or supplement of or to any Loan Document to which Borrower is a party, signed by Borrower and, in the case of any amendment, modification or supplement to Section 9, signed by the Agent), and then only in the specific instance and for the specific purpose given; and, without the approval in writing of all Banks affected thereby, no amendment, modification, supplement, termination, waiver or consent may be effective:

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(a) To reduce the principal of, or the amount of principal, principal prepayments or the rate of interest payable on, any Loan, or the amount of the Commitment or the Pro Rata Share of any Bank or the amount of any facility fee payable to any Bank, or any other fee or amount payable to any Bank under the Loan Documents or to waive an Event of Default consisting of the failure of Borrower to pay when due principal, interest or any facility fee;

(b) To postpone any date fixed for any payment of principal of, prepayment of principal of or any installment of interest on, any Loan or any installment of any facility fee, or to extend the term of the Commitments or increase the Commitments, or to release any Material Subsidiary from the Material Subsidiary Guaranty;

(c) To amend the provisions of the definition of "Requisite Banks", Sections 4 or 9 or this Section; or

(d) To amend any provision of this Agreement that expressly requires the consent or approval of all the Banks.

Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section shall apply equally to, and shall be binding upon, all the Banks and the Agent.

10.3 Attorney Costs, Expenses and Taxes. Borrower shall pay within five Business Days after demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Agent in connection with the negotiation, preparation, syndication, execution and delivery of the Loan Documents (subject to any limitations set forth in a letter agreement between Borrower and the Arranger entered into prior to the Closing Date) and any amendment thereto or waiver thereof. Borrower shall also pay on demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Agent and the Banks in connection with the reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto. The foregoing costs and expenses shall include filing fees, recording fees, title insurance fees, appraisal fees, search fees, and other out-of-pocket expenses and Attorney Costs incurred by the Agent or any Bank, and independent public accountants and other outside experts retained by the Agent or any Bank, whether or not such costs and expenses are incurred or suffered by the Agent or any Bank in connection with or during the course of any bankruptcy or insolvency proceedings of Borrower or any Subsidiary thereof. Such costs and expenses shall also include the administrative costs of the Agent reasonably attributable to the administration of this Agreement and the other Loan Documents. Borrower shall pay any and all Applicable Taxes and all costs, expenses, fees and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto, and shall reimburse, hold harmless and indemnify the Agent and the Banks from and against any and all loss, liability or legal or other expense with respect



to or resulting from any delay in paying or failure to pay any such tax, cost, expense, fee or charge or that any of them may suffer or incur by reason of the failure of Borrower to perform any of its Obligations.

10.4 Nature of Banks' Obligations. The obligations of the Banks hereunder are several and not joint or joint and several. Nothing contained in this Agreement or any other

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Loan Document and no action taken by the Agent or the Banks or any of them pursuant hereto or thereto may, or may be deemed to, make the Banks a partnership, an association, a joint venture or other entity, either among themselves or with Borrower or any Affiliate of Borrower. Each Bank's obligation to make any Loan pursuant hereto is several and not joint or joint and several, and in the case of the initial Loan only is conditioned upon the performance by all other Banks of their obligations to make initial Loans. A default by any Bank will not increase the Pro Rata Share attributable to any other Bank. Any Bank not in default may, if it desires, assume in such proportion as the nondefaulting Banks agree the obligations of any Bank in default, but is not obligated to do so.

10.5 Survival of Representations and Warranties. All representations and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of Borrower or any Material Subsidiary will survive the making of the Loans hereunder and the execution and delivery of any Notes, and have been or will be relied upon by the Agent and each Bank, notwithstanding any investigation made by the Agent or any Bank or on their behalf.

10.6 Notices. Except as otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for therein shall be given by Requisite Notice and shall be effective as follows:

Mode of Delivery -----	Effective on earlier of actual receipt and : -----
Courier	On scheduled delivery date
Facsimile	When transmission complete
Mail	Fourth Business Day after deposit in u.s. mail
Personal delivery	When received
Telephone	When answered

provided, however, that notice to the Agent pursuant to Section 2 or 9 shall not be effective until actually received by the Agent. The Agent and any Bank shall be entitled to rely and act on any notice purportedly given by or on behalf of Borrower even if such notice (a) was not made in a manner specified herein, (b) was incomplete, (c) was not preceded or followed by any other notice specified herein, or (d) the terms of such notice as understood by the recipient varied from any subsequent related notice provided for herein. Borrower shall indemnify the Agent and any Bank from any loss, cost, expense or liability as a result of relying on any notice permitted herein.

10.7 Execution of Loan Documents. Unless the Agent otherwise specifies with respect to any Loan Document, (a) this Agreement and any other

Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any

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counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, when taken together will be deemed to be but one and the same instrument and (b) execution of any such counterpart may be evidenced by a telecopier transmission of the signature of such party. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

10.8 Binding Effect; Assignment.

(a) This Agreement and the other Loan Documents to which Borrower is a party will be binding upon and inure to the benefit of Borrower, the Agent, each of the Banks, and their respective successors and assigns, except that, Borrower may not assign their rights hereunder or thereunder or any interest herein or therein without the prior written consent of all the Banks. Each Bank represents that it is not acquiring its Loans with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (subject to any requirement that disposition of such Loans must be within the control of such Bank). Any Bank may at any time pledge its Note or any other instrument evidencing its rights as a Bank under this Agreement to a Federal Reserve Bank, but no such pledge shall release that Bank from its obligations hereunder or grant to such Federal Reserve Bank the rights of a Bank hereunder absent foreclosure of such pledge.

(b) From time to time following the Closing Date, each Bank may assign to one or more Eligible Assignees all or any portion of its Pro Rata Share; provided that (i) such assignment shall be of a constant, and not a varying, percentage of all of the assigning Bank's rights and obligations under this Agreement (other than any right to make Competitive Loans or Competitive Loans owing to it), (ii), if not to a Bank or an Affiliate of the assigning Bank, shall be consented to by Borrower at all times other than during the existence of an Event of Default and the Agent (which approval of Borrower shall not be unreasonably withheld or delayed), (iii) a copy of a Notice of Assignment and Acceptance shall be delivered to the Agent, (iv) except in the case of an assignment to an Affiliate of the assigning Bank, to another Bank or of the entire remaining Commitment of the assigning Bank, the assignment shall not assign a Pro Rata Share equivalent to less than the Minimum Amount therefor, and (v) the effective date of any such assignment shall be as specified in the Notice of Assignment and Acceptance, but not earlier than the date which is five Business Days after the date the Agent has received the Notice of Assignment and Acceptance. Upon acceptance by the Agent of such Notice Assignment and Acceptance, the Eligible Assignee named therein shall be a Bank for all purposes of this Agreement, with the Pro Rata Share therein set forth and, to the extent of such Pro Rata Share, the assigning Bank shall be released from its further obligations under this Agreement. Borrower agrees that it shall execute and deliver upon request (against delivery by the assigning Bank to Borrower of any Note) to such assignee Bank, one or more Notes evidencing that assignee Bank's Pro Rata Share, and to the assigning Bank if requested, one or more Notes evidencing the remaining balance Pro Rata Share retained by the assigning Bank.

(c) By executing and delivering a Notice of Assignment and Acceptance, the Eligible Assignee thereunder acknowledges and agrees that: (i) other than the representation and warranty that it is the legal and beneficial owner of the Pro Rata Share being assigned thereby

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free and clear of any adverse claim, the assigning Bank has made no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness or sufficiency of this Agreement or any other Loan Document; (ii) the assigning Bank has made no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations; (iii) it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) it will, independently and without reliance upon the Agent or any Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) it appoints and authorizes the Agent to take such action and to exercise such powers under this Agreement as are delegated to the Agent by this Agreement; and (vi) it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) After receipt of a completed Notice of Assignment and Acceptance, and receipt of an assignment fee of \$3,000 from such Eligible Assignee, the Agent shall, promptly following the effective date thereof, provide to Borrower and the Banks a revised Schedule 10.6 giving effect thereto.

(e) Each Bank may from time to time grant participations to one or more banks or other financial institutions (including another Bank) in a portion of its Pro Rata Share; provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other financial institutions shall not be a Bank hereunder for any purpose except, if the participation agreement so provides, for the purposes of Section 3 (but only to the extent that the cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Bank absent the participation) and Section 10.9 (subject to Section 10.10), (iv) Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) the participation shall not restrict an increase in the Commitment or in the granting Bank's Pro Rata Share, so long as the amount of the participation interest is not affected thereby and (vi) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents other than those which (A) extend the Maturity Date as to such participant or any other date upon which any payment of money is due to such participant, (B) reduce the rate of interest owing to such participant, any fee or any other monetary amount owing to such participant, (C) reduce the amount of any installment of principal owing to such participant or (D) release any guarantor.

10.9 Right of Setoff. If an Event of Default has occurred and is continuing, the Agent or any Bank may exercise its rights under Section 9 of the Uniform Commercial Code and other applicable Laws and, to the extent permitted by applicable Laws, apply any funds in any deposit account maintained with it by Borrower and/or any property of Borrower in its possession against the Obligations.

10.10 Sharing of Setoffs. Each Bank severally agrees that if it, through the exercise of any right of setoff, banker's lien or counterclaim against Borrower, or otherwise, receives payment of the Obligations held by it that is ratably more than any other Bank, through any means, receives in payment of the Obligations held by that Bank, then, subject to applicable Laws: (a) the Bank exercising the right of setoff, banker's lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased, from the other Bank a participation in the Obligations held by the other Bank and shall pay to the other Bank a purchase price in an amount so that the share of the Obligations held by each Bank after the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment shall be in the same proportion that existed prior to the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all of the Banks share any payment obtained in respect of the Obligations ratably in accordance with each Bank's share of the Obligations immediately prior to, and without taking into account, the payment; provided that, if all or any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker's lien, counterclaim or otherwise is thereafter recovered from the purchasing Bank by Borrower or any Person claiming through or succeeding to the rights of Borrower, the purchase of a participation shall be rescinded and the purchase price thereof shall be restored to the extent of the recovery, but without interest. Each Bank that purchases a participation in the Obligations pursuant to this Section shall from and after the purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Bank were the original owner of the Obligations purchased. Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in an Obligation so purchased may exercise any and all rights of setoff, banker's lien or counterclaim with respect to the participation as fully as if the Bank were the original owner of the Obligation purchased.

10.11 Indemnity by Borrower. Borrower agrees to indemnify, save and hold harmless the Agent and each Bank and their respective Affiliates, directors, officers, agents, attorneys and employees (collectively the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action (except a claim, demand, action, or cause of action for Bank Taxes) if the claim, demand, action or cause of action arises out of or relates to any act or omission (or alleged act or omission) of Borrower, its Affiliates or any of their officers, directors or stockholders relating to the Commitment, the use or contemplated use of proceeds of any Loan, or the relationship of Borrower and the Banks under this Agreement; (b) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in subsection (a) above; and (c) any and all liabilities, losses, costs or expenses (including Attorney Costs) that any Indemnatee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action; provided that no Indemnatee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnatee.

10.12 Nonliability of the Banks. Borrower acknowledges and agrees that:

(a) Any inspections of any property of Borrower made by or through the Agent or the Banks are for purposes of administration of the Loan only and Borrower is not entitled to rely upon the same (whether or not such inspections are at the expense of Borrower);

(b) By accepting or approving anything required to be observed, performed, fulfilled or given to the Agent or the Banks pursuant to the Loan Documents, neither the Agent nor the Banks shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by the Agent or the Banks;

(c) The relationship between Borrower and the Agent and the Banks is, and shall at all times remain, solely that of Borrower and lenders; neither the Agent nor the Banks shall under any circumstance be construed to be partners or joint venturers of Borrower or their Affiliates; neither the Agent nor the Banks shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or their Affiliates, or to owe any fiduciary duty to Borrower or their Affiliates; neither the Agent nor the Banks undertake or assume any responsibility or duty to Borrower or their Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or their Affiliates of any matter in connection with their property or the operations of Borrower or their Affiliates; Borrower and their Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by the Agent or the Banks in connection with such matters is solely for the protection of the Agent and the Banks and neither Borrower nor any other Person is entitled to rely thereon; and

(d) The Agent and the Banks shall not be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to property caused by the actions, inaction or negligence of Borrower and/or its Affiliates and Borrower hereby indemnify and hold the Agent and the Banks harmless from any such loss, damage, liability or claim.

10.13 No Third Parties Benefited. This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of Borrower, the Agent and the Banks in connection with the Loans, and is made for the sole benefit of Borrower, the Agent and the Banks, and the Agent's and the Banks' successors and assigns. Except as provided in Sections 10.8 and 10.11, no other Person shall have any rights of any nature hereunder or by reason hereof.

10.14 Confidentiality. Each Bank agrees to hold any confidential information that it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure: (a) to a Bank's Affiliates; (b) to other Banks and their Affiliates; (c) to legal counsel and accountants for Borrower or any Bank; (d) to other professional advisors to Borrower or any Bank, provided that the recipient has accepted such information subject to a confidentiality agreement substantially similar to this Section; (e) to regulatory officials having jurisdiction over that Bank; (f) as required by Laws or legal process or in connection with any legal proceeding to which that Bank and Borrower is adverse parties; and (g) to another financial

institution in connection with a disposition or proposed disposition to that financial institution of all or part of that Bank's interests hereunder or a participation interest in its Loans, provided that the recipient has agreed to treat such information confidentially on a basis similar to the foregoing. For purposes of the foregoing, "confidential information" shall mean any information respecting Borrower or its Subsidiaries reasonably considered by Borrower to be confidential, other than (i) information previously filed with any Governmental Authority and available to the public, (ii) information

previously published in any public medium from a source other than, directly or indirectly, that Bank, and (iii) information previously disclosed by Borrower to any Person not associated with Borrower without a confidentiality agreement or obligation substantially similar to this Section. Nothing in this Section shall be construed to create or give rise to any fiduciary duty on the part of the Agent or the Banks to Borrower.

10.15 Further Assurances. Borrower and its Subsidiaries shall, at their expense and without expense to the Banks or the Agent, do, execute and deliver such further acts and documents as any Bank or the Agent from time to time reasonably requires for the assuring and confirming unto the Banks or the Agent of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

10.16 Integration. This Agreement, together with the other Loan Documents and any letter agreements referred to herein, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor of the Agent or the Banks in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.17 Failure to Charge Not Subsequent Waiver. Any decision by the Agent or any Bank not to require payment of any interest (including Default Interest), fee, cost or other amount payable under any Loan Document, or to calculate any amount payable by a particular method, on any occasion shall in no way limit or be deemed a waiver of the Agent's or such Bank's right to require full payment of any interest (including Default Interest), fee, cost or other amount payable under any Loan Document, or to calculate an amount payable by another method that is not inconsistent with this Agreement, on any other or subsequent occasion.

10.18 Governing Law. Except to the extent otherwise provided therein, each Loan Document shall be governed by, and construed and enforced in accordance with, the local Laws of California.

10.19 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other

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party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

10.20 Headings. Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

10.21 Time of the Essence. Time is of the essence of the Loan Documents.

10.22 Foreign Banks and Participants. Each Bank, and each holder of a participation interest herein, that is a "foreign corporation, partnership or

trust" within the meaning of the Code shall deliver to the Agent, within 20 days after the Closing Date (or after accepting an assignment or receiving a participation interest herein) two duly signed completed copies of either Form 1001 (relating to such Person and entitling it to a complete exemption from withholding on all payments to be made to such Person by Borrower pursuant to this Agreement) or Form 4224 (relating to all payments to be made to such Person by Borrower pursuant to this Agreement) of the United States Internal Revenue Service or such other evidence (including, if reasonably necessary, Form W-9) satisfactory to Borrower and the Agent that no withholding under the federal income tax laws is required with respect to such Person. Thereafter and from time to time, each such Person shall (a) promptly submit to the Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and the Agent of any available exemption from, United States withholding taxes in respect of all payments to be made to such Person by Borrower pursuant to this Agreement and (b) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Bank, and as may be reasonably necessary (including the re-designation of its Lending Office, if any) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes from amounts payable to such Person. If such Persons fails to deliver the above forms or other documentation, then the Agent may withhold from any interest payment to such Person an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code, without reduction. If any Governmental Authority asserts that the Agent did not properly withhold any tax or other amount from payments made in respect of such Person, such Person shall indemnify the Agent therefor, including all penalties and interest and costs and expenses (including Attorney Costs) of the Agent. The obligation of the Banks under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

10.23 Removal of a Bank. Under any circumstances set forth in this Agreement providing that Borrower shall have the right to remove a Bank as a party to this Agreement, such Bank shall, upon notice from Borrower, execute and deliver a Notice of Assignment and Acceptance covering that Bank's Pro Rata Share of the Commitments in favor of an Eligible Assignee acceptable to the Agent as Borrower may designate, subject to (a) payment in full by such Eligible Assignee of all principal, interest and fees owing to such Bank through the date of assignment and (b) delivery by such Eligible Assignee of such appropriate assurances and indemnities (which may include letters of credit) as such Bank may reasonably require with respect to its participation interest in any Letters of Credit then outstanding or any Swing Line

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Outstandings. Alternatively, Borrower may reduce the Commitments (and, for this purpose, the Minimum Amounts for Commitment reductions shall not apply) by an amount equal to that Bank's Pro Rata Share of the Commitments, pay and provide to such Bank the amounts, assurances and indemnities described in (a) and (b) above and release such Bank from its Pro Rata Share of the Commitments.

10.24 WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTY HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS

WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.25 PURPORTED ORAL AMENDMENTS. BORROWER EXPRESSLY ACKNOWLEDGE THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 10.2. BORROWER AGREES THAT IT WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR WRITTEN STATEMENTS BY ANY REPRESENTATIVE OF THE AGENT OR ANY BANK THAT DOES NOT COMPLY WITH SECTION 10.2 TO EFFECT AN AMENDMENT, MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

FLOWSERVE CORPORATION,  
A NEW YORK CORPORATION

By: /s/ ZOHAR ZIV

Name: Zohar Ziv

Title: Assistant Treasurer

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BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, AS  
AGENT

By: /s/ JANICE HAMMOND

VICE PRESIDENT

Janice Hammond  
Vice President  
Agency Specialist

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BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, AS  
ISSUING BANK AND A BANK

By: /s/ RICHARD BERNAL

Richard Bernal  
Assistant Vice President



By: /s/ GINA WEST

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Gina West  
Vice President

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NATIONAL CITY BANK

By: /s/ BRIAN CULLINEO

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Title: Vice President  
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BANK ONE TEXAS, NATIONAL ASSOCIATION

By: /s/ GINA A. NORRIS

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Title: Vice President  
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NATIONSBANK N.A.

By: /s/ BARBARA A. GILLEY

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Title: Vice President  
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THE FIFTH THIRD BANK

By: /s/ K. DOUGLAS COMPTON

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Title: Vice President  
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## MATERIAL SUBSIDIARY GUARANTY

This Material Subsidiary Guaranty is entered into as of November 26, 1997 by BW/IP INTERNATIONAL, INC., a Delaware corporation ("Subsidiary Guarantor"), in favor of and for the benefit of Bank of America National Trust and Savings Association, as agent for and representative of (in such capacity herein called "Agent") itself, the Banks and the Issuing Bank (as each such term is defined in the Credit Agreement referenced below).

## RECITALS

A. Flowserve Corporation, a New York corporation (the "Borrower") is entering into that certain Credit Agreement dated as of November 26, 1997 among, Borrower, the banks from time to time party thereto, and Bank of America National Trust and Savings Association, as Agent and Issuing Bank (said Credit Agreement, as it may hereafter be amended, supplemented, restated or otherwise modified from time to time, being the "Credit Agreement"; capitalized terms defined therein and not otherwise defined herein being used herein as therein defined).

B. A portion of the proceeds of the Loans may be loaned to Subsidiary Guarantor and Letters of Credit may be issued for the benefit of Subsidiary Guarantor and thus the Guaranteed Obligations (as hereinafter defined) are being incurred for and will inure to the benefit of Subsidiary Guarantor (which benefits are hereby acknowledged).

C. It is a condition precedent to the making of the Loans and issuance of Letters of Credit that Borrower's obligations under the Credit Agreement be guaranteed by Subsidiary Guarantor.

D. Subsidiary Guarantor is willing irrevocably and unconditionally to guaranty such obligations of Borrower.

NOW, THEREFORE, based upon the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce Banks, the Issuing Bank and Agent to make the Loans and issue Letters of Credit, Subsidiary Guarantor hereby agrees as follows:

## SECTION 1. DEFINITIONS

1.1 Certain Defined Terms. As used in this Subsidiary Guaranty, the following terms shall have the following meanings unless the context otherwise requires:

"Guaranteed Obligations" has the meaning assigned to that term in Section 2.1.

"Payment in full", "paid in full" or any similar term means payment in full of the Guaranteed Obligations including, without limitation, all principal, interest, costs, fees and expenses (including, without limitation, legal fees and expenses) of Banks and Agent as required under the Loan Documents.

"Subsidiary Guaranty" means this Subsidiary Guaranty.

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## 1.2 Interpretation.

(a) References to "Sections" shall be to Sections of this Subsidiary Guaranty unless otherwise specifically provided. All accounting terms not

otherwise defined herein shall have the meanings assigned to them under generally accepted accounting principles.

(b) In the event of any conflict or inconsistency between the terms, conditions and provisions of this Subsidiary Guaranty and the terms, conditions and provisions of the Credit Agreement, the terms, conditions and provisions of this Subsidiary Guaranty shall prevail.

## SECTION 2. THE GUARANTY

2.1 Guaranty of the Guaranteed Obligations. Subsidiary Guarantor hereby irrevocably and unconditionally guaranties, as primary obligor and not merely as surety, the due and punctual payment in full of all Guaranteed Obligations when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss. 362(a)). The term "Guaranteed Obligations" is used herein in its most comprehensive sense and includes:

(a) any and all Obligations of Borrower now or hereafter made, incurred or created, whether absolute or contingent, liquidated or unliquidated, whether due or not due, and however arising under or in connection with the Credit Agreement and the other Loan Documents, including those arising under successive borrowing transactions under the Credit Agreement which shall either continue the Obligations of Borrower or from time to time renew them after they have been satisfied; and

(b) those expenses set forth in Section 2.9 hereof.

2.2 Limitation on Amount Guaranteed; Contribution by Subsidiary Guarantor.

(a) Anything contained in this Subsidiary Guaranty to the contrary notwithstanding, if any Fraudulent Transfer Law (as hereinafter defined) is determined by a court of competent jurisdiction to be applicable to the obligations of Subsidiary Guarantor under this Subsidiary Guaranty, such obligations of Subsidiary Guarantor hereunder shall be limited to a maximum aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of Title 11 of the United States Code or any applicable provisions of comparable state law (collectively, the "Fraudulent Transfer Laws"), in each case after giving effect to all other liabilities of Subsidiary Guarantor, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws (specifically excluding, however, any liabilities of Subsidiary Guarantor (x) in respect of intercompany indebtedness to Borrower or other affiliates of Borrower to the extent that such indebtedness would be discharged in an amount equal to the amount paid by Subsidiary Guarantor hereunder and (y) under any guaranty of Subordinated Indebtedness which guaranty contains a limitation as to maximum amount similar to that set forth in this Section 2.2(a), pursuant to which the liability of Subsidiary Guarantor hereunder is included in the liabilities taken into account in determining such maximum amount) and after giving effect as assets to the value (as determined under the applicable provisions of the Fraudulent Transfer Laws) of any

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rights to subrogation, reimbursement, indemnification or contribution of Subsidiary Guarantor pursuant to applicable law or pursuant to the terms of any agreement (including without limitation any such right of contribution under a Related Guaranty (as hereinafter defined) as contemplated by Section 2.2(b)).

(b) Subsidiary Guarantor under this Subsidiary Guaranty, and each guarantor under other guaranties, if any, relating to the Credit Agreement (the "Related Guaranties") which contain a contribution provision similar to that set forth in this Section 2.2(b), together desire to allocate among themselves

(collectively, the "Contributing Guarantors"), in a fair and equitable manner, their obligations arising under this Subsidiary Guaranty and the Related Guaranties. Accordingly, in the event any payment or distribution is made on any date by Subsidiary Guarantor under this Subsidiary Guaranty or a guarantor under a Related Guaranty (a "Funding Guarantor") that exceeds its Fair Share (as defined below) as of such date, that Funding Guarantor shall be entitled to a contribution from each of the other Contributing Guarantors in the amount of such other Contributing Guarantor's Fair Share Shortfall (as defined below) as of such date, with the result that all such contributions will cause each Contributing Guarantor's Aggregate Payments (as defined below) to equal its Fair Share as of such date. "Fair Share" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the ratio of (x) the Adjusted Maximum Amount (as defined below) with respect to such Contributing Guarantor to (y) the aggregate of the Adjusted Maximum Amounts with respect to all Contributing Guarantors, multiplied by (ii) the aggregate amount paid or distributed on or before such date by all Funding Guarantors under this Subsidiary Guaranty and the Related Guaranties in respect of the obligations guaranteed. "Fair Share Shortfall" means, with respect to a Contributing Guarantor as of any date of determination, the excess, if any, of the Fair Share of such Contributing Guarantor over the Aggregate Payments of such Contributing Guarantor. "Adjusted Maximum Amount" means, with respect to a Contributing Guarantor as of any date of determination, the maximum aggregate amount of the obligations of such Contributing Guarantor under this Subsidiary Guaranty and the Related Guaranties, determined as of such date in accordance with Section 2.2(a) or, if applicable, a similar provision contained in a Related Guaranty; provided that, solely for purposes of calculating the "Adjusted Maximum Amount" with respect to any Contributing Guarantor for purposes of this Section 2.2(b), any assets or liabilities of such Contributing Guarantor arising by virtue of any rights to subrogation, reimbursement or indemnification or any rights to or obligations of contribution hereunder or under any similar provision contained in a Related Guaranty shall not be considered as assets or liabilities of such Contributing Guarantor. "Aggregate Payments" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the aggregate amount of all payments and distributions made on or before such date by such Contributing Guarantor in respect of this Subsidiary Guaranty and the Related Guaranties (including, without limitation, in respect of this Section 2.2(b) or any similar provision contained in a Related Guaranty) minus (ii) the aggregate amount of all payments received on or before such date by such Contributing Guarantor from the other Contributing Guarantors as contributions under this Section 2.2(b) or any similar provision contained in a Related Guaranty. The amounts payable as contributions hereunder and under similar provisions in the Related Guaranties shall be determined as of the date on which the related payment or distribution is made by the applicable Funding Guarantor. The allocation among Contributing Guarantors of their obligations as set forth in this Section 2.2(b) or any similar provision contained in a Related Guaranty shall not be construed in any way to limit the liability of any Contributing Guarantor hereunder or under a

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Related Guaranty. Each Contributing Guarantor under a Related Guaranty is a third party beneficiary to the contribution agreement set forth in this Section 2.2(b).

2.3 Liability of Subsidiary Guarantor. Subsidiary Guarantor agrees that its obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit. In furtherance of the foregoing and without limiting the generality thereof, Subsidiary Guarantor agrees as follows:

(a) This Subsidiary Guaranty is a guaranty of payment when due and not of collectibility.

(b) Agent may enforce this Subsidiary Guaranty upon the occurrence of an Event of Default under the Credit Agreement notwithstanding the existence of any dispute between Banks and Borrower with respect to the existence of such Event of Default.

(c) The obligations of Subsidiary Guarantor hereunder are independent of the obligations of Borrower under the Loan Documents and the obligations of any other guarantor of the obligations of Borrower under the Loan Documents, and a separate action or actions may be brought and prosecuted against Subsidiary Guarantor whether or not any action is brought against Borrower or any of such other guarantors and whether or not Borrower is joined in any such action or actions.

(d) Subsidiary Guarantor's payment of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify or abridge Subsidiary Guarantor's liability for any portion of the Guaranteed Obligations which has not been paid. Without limiting the generality of the foregoing, if Agent is awarded a judgment in any suit brought to enforce Subsidiary Guarantor's covenant to pay a portion of the Guaranteed Obligations, such judgment shall not be deemed to release Subsidiary Guarantor from its covenant to pay the portion of the Guaranteed Obligations that is not the subject of such suit.

(e) Agent or any Bank, upon such terms as it deems appropriate, without notice or demand and without affecting the validity or enforceability of this Subsidiary Guaranty or giving rise to any reduction, limitation, impairment, discharge or termination of Subsidiary Guarantor's liability hereunder, from time to time may (i) renew, extend, accelerate, increase the rate of interest on, or otherwise change the time, place, manner or terms of payment of the Guaranteed Obligations, (ii) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Guaranteed Obligations or any agreement relating thereto and/or subordinate the payment of the same to the payment of any other obligations; (iii) request and accept other guaranties of the Guaranteed Obligations and take and hold security for the payment of this Subsidiary Guaranty or the Guaranteed Obligations; (iv) release, surrender, exchange, substitute, compromise, settle, rescind, waive, alter, subordinate or modify, with or without consideration, any security for payment of the Guaranteed Obligations, any other guaranties of the Guaranteed Obligations, or any other obligation of any Person with respect to the Guaranteed Obligations; (v) enforce and apply any security now or

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hereafter held by or for the benefit of Agent or any Bank in respect of this Subsidiary Guaranty or the Guaranteed Obligations and direct the order or manner of sale thereof, or exercise any other right or remedy that Agent or Banks, or any of them, may have against any such security, as Agent in its discretion may determine consistent with the Credit Agreement and any applicable security agreement, including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and even though such action operates to impair or extinguish any right of reimbursement or subrogation or other right or remedy of Subsidiary Guarantor against Borrower or any security for the Guaranteed Obligations; and (vi) exercise any other rights available to it under the Loan Documents.

(f) This Subsidiary Guaranty and the obligations of Subsidiary Guarantor hereunder shall be valid and enforceable and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason (other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit), including without limitation the occurrence of any of the following, whether or not Subsidiary Guarantor shall have had notice or knowledge of any of them: (i) any failure or omission to assert or enforce or agreement or election not to assert or enforce, or the stay or enjoining, by

order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy (whether arising under the Loan Documents, at law, in equity or otherwise) with respect to the Guaranteed Obligations or any agreement relating thereto, or with respect to any other guaranty of or security for the payment of the Guaranteed Obligations; (ii) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including without limitation provisions relating to events of default) of the Credit Agreement, any of the other Loan Documents or any agreement or instrument executed pursuant thereto, or of any other guaranty or security for the Guaranteed Obligations, in each case whether or not in accordance with the terms of the Credit Agreement or such Loan Document or any agreement relating to such other guaranty or security; (iii) the Guaranteed Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect; (iv) the application of payments received from any source (other than payments received pursuant to the other Loan Documents or from the proceeds of any security for the Guaranteed Obligations, except to the extent such security also serves as collateral for indebtedness other than the Guaranteed Obligations) to the payment of indebtedness other than the Guaranteed Obligations, even though Agent or Banks, or any of them, might have elected to apply such payment to any part or all of the Guaranteed Obligations; (v) any Bank's or Agent's consent to the change, reorganization or termination of the corporate structure or existence of Borrower or any of its Subsidiaries and to any corresponding restructuring of the Guaranteed Obligations; (vi) any failure to perfect or continue perfection of a security interest in any collateral which secures any of the Guaranteed Obligations; (vii) any defenses, set-offs or counterclaims which Borrower may allege or assert against Agent or any Bank in respect of the Guaranteed Obligations, including but not limited to failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury; and (viii) any other act or thing or omission, or delay to do any other act or thing, which may or might in any manner or to any extent vary the risk of Subsidiary Guarantor as an obligor in respect of the Guaranteed Obligations.

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2.4 Waivers by Subsidiary Guarantor. Subsidiary Guarantor hereby waives, for the benefit of Banks and Agent:

(a) any right to require Agent or Banks, as a condition of payment or performance by Subsidiary Guarantor, to (i) proceed against Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (ii) proceed against or exhaust any security held from Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (iii) proceed against or have resort to any balance of any deposit account or credit on the books of Agent or any Bank in favor of Borrower or any other Person, or (iv) pursue any other remedy in the power of Agent or any Bank whatsoever;

(b) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of Borrower including, without limitation, any defense based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of Borrower from any cause other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit;

(c) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(d) any defense based upon Agent's or any Bank's errors or omissions in the administration of the Guaranteed Obligations, except behavior which amounts to bad faith;

(e) (i) any principles or provisions of law, statutory or otherwise,

which are or might be in conflict with the terms of this Subsidiary Guaranty and any legal or equitable discharge of Subsidiary Guarantor's obligations hereunder, (ii) the benefit of any statute of limitations affecting Subsidiary Guarantor's liability hereunder or the enforcement hereof, (iii) any rights to set-offs, recoupments and counterclaims, and (iv) promptness, diligence and any requirement that Agent or any Bank protect, secure, perfect or insure any security interest or lien or any property subject thereto;

(f) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, including acceptance of this Subsidiary Guaranty, notices of default under the Credit Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto, notices of any extension of credit to Borrower and notices of any of the matters referred to in Section 2.3 and any right to consent to any thereof; and

(g) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms of this Subsidiary Guaranty.

#### 2.5 Payment by Subsidiary Guarantor; Application of Payments.

Subsidiary Guarantor hereby agrees, in furtherance of the foregoing and not in limitation of any other right which Agent or any other Person may have at law or in equity against Subsidiary Guarantor by virtue hereof, upon the failure of Borrower to pay any of the Guaranteed Obligations when and as

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the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss. 362(a)), Subsidiary Guarantor will forthwith pay, or cause to be paid, in cash, to Agent for the ratable benefit of Banks, an amount equal to the sum of the unpaid principal amount of all Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such Guaranteed Obligations (including, without limitation, interest which, but for the filing of a petition in bankruptcy with respect to Borrower, would have accrued on such Guaranteed Obligations, whether or not a claim is allowed against Borrower for such interest in any such bankruptcy proceeding) and all other Guaranteed Obligations then owed to Agent and/or Banks as aforesaid. All such payments shall be applied promptly from time to time by Agent:

First, to the payment of the costs and expenses of any collection or other realization under this Subsidiary Guaranty, including reasonable compensation to Agent and its agents and counsel, and all expenses, liabilities and Loans made or incurred by Agent in connection therewith;

Second, to the payment of all other Guaranteed Obligations; and

Third, after payment in full of all Guaranteed Obligations, to the payment to Subsidiary Guarantor, or its successors or assigns, or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such payments.

2.6 Subrogation. Until the Guaranteed Obligations shall have been indefeasibly paid in full and the Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement, Subsidiary Guarantor shall withhold exercise of (a) any right of subrogation, (b) any right of contribution Subsidiary Guarantor may have against any other guarantor of the Guaranteed Obligations, (c) any right to enforce any remedy which Agent or any Bank now has or may hereafter have against Borrower or (d) any benefit of, and any right to participate in, any security now or hereafter held by Agent or any Bank. Subsidiary Guarantor further agrees that, to the extent the waiver of its rights of subrogation and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of



subrogation Subsidiary Guarantor may have against Borrower or against any collateral or security, and any rights of contribution Subsidiary Guarantor may have against any other guarantor, shall be junior and subordinate to any rights Agent or Banks may have against Borrower, to all right, title and interest Agent or Banks may have in any such collateral or security, and to any right Agent or Banks may have against such other guarantor. Agent, on behalf of Banks, may use, sell or dispose of any item of collateral or security as it sees fit without regard to any subrogation rights Subsidiary Guarantor may have, and upon any such disposition or sale any rights of subrogation Subsidiary Guarantor may have shall terminate. If any amount shall be paid to Subsidiary Guarantor on account of such subrogation rights at any time when all Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for Agent on behalf of Banks and shall forthwith be paid over to Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms of the Credit Agreement or any applicable security agreement.

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2.7 Subordination of Other Obligations. Any indebtedness of Borrower now or hereafter held by Subsidiary Guarantor is hereby subordinated in right of payment to the Guaranteed Obligations, and any such indebtedness of Borrower to Subsidiary Guarantor collected or received by Subsidiary Guarantor after an Event of Default has occurred and is continuing shall be held in trust for Agent on behalf of Banks and shall forthwith be paid over to Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations but without affecting, impairing or limiting in any manner the liability of Subsidiary Guarantor under any other provision of this Subsidiary Guaranty.

2.8 Real Property Security. Subsidiary Guarantor agrees that, if all or a portion of the Guaranteed Obligations are at any time secured by a deed of trust or mortgage covering interests in real property, Agent or its designee, in its sole discretion, without notice or demand and without affecting the liability of Subsidiary Guarantor under this Subsidiary Guaranty, may foreclose, pursuant to the terms of the Loan Documents or otherwise, on such deed of trust or mortgage and the interests in real property secured thereby by nonjudicial or other sale. Subsidiary Guarantor understands that the exercise by Banks or Agent, or any of them, of certain rights and remedies contained in the Credit Agreement and such deed of trust or mortgage may affect or eliminate Subsidiary Guarantor's right of subrogation against Borrower and that Subsidiary Guarantor may therefore incur a partially or totally nonreimbursable liability hereunder. Nevertheless, Subsidiary Guarantor hereby authorizes and empowers Agent and any Bank to exercise, in its sole discretion, any rights and remedies, or any combination thereof, which may then be available, since it is the intent and purpose of Subsidiary Guarantor that the obligations hereunder shall be absolute, independent and unconditional under any and all circumstances. Notwithstanding any foreclosure of the lien of such deed of trust or mortgage with respect to any or all real or personal property secured thereby, whether by the exercise of the power of sale contained therein, by an action for judicial foreclosure or by an acceptance of a deed in lieu of foreclosure, Subsidiary Guarantor shall remain bound under this Subsidiary Guaranty, including its obligation to pay any deficiency after a nonjudicial foreclosure.

2.9 Expenses. Subsidiary Guarantor agrees to pay, or cause to be paid, and to save Agent and Banks harmless against liability for, any and all costs and expenses (including fees and disbursements of counsel and the allocated cost of inhouse counsel) incurred or expended by Agent or any Bank in connection with the enforcement of or preservation of any rights under this Subsidiary Guaranty.

2.10 Continuing Guaranty; Termination of Subsidiary Guaranty. This Subsidiary Guaranty is a continuing guaranty and shall remain in effect until all of the Guaranteed Obligations shall have been indefeasibly paid in full, the Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement. Anything contained in this Subsidiary Guaranty to the contrary

notwithstanding, this Subsidiary Guaranty shall not apply to Guaranteed Obligations created after actual receipt by Agent of written notice (delivered in accordance with Section 5.2) from Subsidiary Guarantor of its revocation as to future transactions; provided, however, that any such revocation shall not affect Subsidiary Guarantor's liability for any Guaranteed Obligations outstanding at the time of receipt of such notice or any extension or renewal of such Guaranteed Obligations.

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2.11 Authority of Subsidiary Guarantor or Borrower. It is not necessary for Banks or Agent to inquire into the capacity or powers of Subsidiary Guarantor or Borrower or the officers, directors or any agents acting or purporting to act on behalf of any of them.

2.12 Financial Condition of Borrower. Any Loans may be granted to Borrower or continued from time to time without notice to or authorization from Subsidiary Guarantor regardless of the financial or other condition of Borrower at the time of any such grant or continuation. Banks and Agent shall have no obligation to disclose or discuss with Subsidiary Guarantor their assessment, or Subsidiary Guarantor's assessment, of the financial condition of Borrower. Subsidiary Guarantor has adequate means to obtain information from Borrower on a continuing basis concerning the financial condition of Borrower and its ability to perform its obligations under the Credit Agreement, and Subsidiary Guarantor assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations. Subsidiary Guarantor hereby waives and relinquishes any duty on the part of Agent or any Bank to disclose any matter, fact or thing relating to the business, operations or conditions of Borrower now known or hereafter known by Agent or any Bank.

2.13 Rights Cumulative. The rights, powers and remedies given to Banks and Agent by this Subsidiary Guaranty are cumulative and shall be in addition to and independent of all rights, powers and remedies given to Banks and Agent by virtue of any statute or rule of law or in any of the other Loan Documents or any agreement between Subsidiary Guarantor and Banks and/or Agent or between Borrower and Banks and/or Agent. Any forbearance or failure to exercise, and any delay by any Bank or Agent in exercising, any right, power or remedy hereunder shall not impair any such right, power or remedy or be construed to be a waiver thereof, nor shall it preclude the further exercise of any such right, power or remedy.

2.14 Bankruptcy; Post-Petition Interest; Reinstatement of Subsidiary Guaranty.

(a) The obligations of Subsidiary Guarantor under this Subsidiary Guaranty shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Borrower or by any defense which Borrower may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.

(b) Subsidiary Guarantor acknowledges and agrees that any interest on any portion of the Guaranteed Obligations which accrues after the commencement of any proceeding referred to in clause (a) above (or, if interest on any portion of the Guaranteed Obligations ceases to accrue by operation of law by reason of the commencement of said proceeding, such interest as would have accrued on such portion of the Guaranteed Obligations if said proceedings had not been commenced) shall be included in the Guaranteed Obligations because it is the intention of Subsidiary Guarantor and Agent that the Guaranteed Obligations which are guaranteed by Subsidiary Guarantor pursuant to this Subsidiary Guaranty should be determined without regard to any rule of law or order which may relieve Borrower of any portion of such Guaranteed Obligations. Subsidiary Guarantor will permit any trustee in bankruptcy, receiver, debtor in possession, assignee for the benefit of creditors or similar person to pay

Agent, or allow the

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claim of Agent in respect of, any such interest accruing after the date on which such proceeding is commenced.

(c) In the event that all or any portion of the Guaranteed Obligations are paid by Borrower, the obligations of Subsidiary Guarantor hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from Agent or any Bank as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes under this Subsidiary Guaranty.

2.15 Set Off. In addition to any other rights any Bank or Agent may have under law or in equity, if any amount shall at any time be due and owing by Subsidiary Guarantor to any Bank or Agent under this Subsidiary Guaranty, such Bank or Agent is authorized at any time or from time to time, without notice (any such notice being hereby expressly waived), to set off and to appropriate and to apply any and all deposits (general or special, including but not limited to indebtedness evidenced by certificates of deposit, whether matured or unmatured) and any other indebtedness of any Bank or Agent owing to Subsidiary Guarantor and any other property of Subsidiary Guarantor held by any Bank or Agent to or for the credit or the account of Subsidiary Guarantor against and on account of the Guaranteed Obligations and liabilities of Subsidiary Guarantor to any Bank or Agent under this Subsidiary Guaranty.

2.16 Discharge of Subsidiary Guaranty Upon Sale of Subsidiary Guarantor. If all of the stock of Subsidiary Guarantor or any of its successors in interest under this Subsidiary Guaranty shall be sold or otherwise disposed of (including by merger or consolidation) in an asset sale not prohibited by Section 5.02(e) of the Credit Agreement or otherwise consented to by Requisite Banks, the Subsidiary Guaranty of Subsidiary Guarantor or such successor in interest, as the case may be, hereunder shall automatically be discharged and released without any further action by Agent or any Bank or any other Person effective as of the time of such asset sale. Notwithstanding the foregoing, so long as the Subsidiary Guarantor or its successor shall remain a Subsidiary of the Borrower and any Guaranteed Obligations remain outstanding, such Subsidiary Guarantor or successor shall enter into a new Subsidiary Guaranty with the Agent for the benefit of the Banks.

### SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce Banks and Agent to accept this Subsidiary Guaranty and to enter into the Credit Agreement and to make the Loans thereunder, Subsidiary Guarantor hereby represents and warrants to Banks that the following statements are true and correct:

3.1 Corporate Existence. Subsidiary Guarantor is duly organized, validly existing and in good standing under the laws of the state of its incorporation, has the corporate power to own its assets and to transact the business in which it is now engaged and is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except for failures to be so qualified, authorized or licensed that would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of Subsidiary Guarantor.

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3.2 Corporate Power; Authorization; Enforceable Obligations. Subsidiary Guarantor has the corporate power, authority and legal right to execute, deliver

and perform this Subsidiary Guaranty and all obligations required hereunder and has taken all necessary corporate action to authorize its Subsidiary Guaranty hereunder on the terms and conditions hereof and its execution, delivery and performance of this Subsidiary Guaranty and all obligations required hereunder. No consent of any other Person including, without limitation, stockholders and creditors of Subsidiary Guarantor (other than those which have been obtained), and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by Subsidiary Guarantor in connection with this Subsidiary Guaranty or the execution, delivery, performance, validity or enforceability of this Subsidiary Guaranty and all obligations required hereunder except such consents licenses, permits, approvals or authorizations which, if not obtained, either (i) would not adversely affect the ability of the Subsidiary Guarantor to perform the transactions contemplated by this Subsidiary Guaranty, or (ii) would not have a Material Adverse Effect. This Subsidiary Guaranty has been, and each instrument or document required hereunder will be, executed and delivered by a duly authorized officer of Subsidiary Guarantor, and this Subsidiary Guaranty constitutes, and each instrument or document required hereunder when executed and delivered hereunder will constitute, the legally valid and binding obligation of Subsidiary Guarantor, enforceable against Subsidiary Guarantor in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws or equitable principles relating to or limiting creditors' rights generally.

3.3 No Legal Bar to this Subsidiary Guaranty. The execution, delivery and performance of this Subsidiary Guaranty and the documents or instruments required hereunder, and the use of the proceeds of the borrowings, and the issuance of the Letters of Credit will not violate any provision of any existing law or regulation binding on Subsidiary Guarantor, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on Subsidiary Guarantor, or the certificate of incorporation or bylaws of Subsidiary Guarantor or any securities issued by Subsidiary Guarantor, or any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which Subsidiary Guarantor is a party or by which Subsidiary Guarantor or any of its assets may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of Subsidiary Guarantor and will not result in, or require, the creation or imposition of any Lien on any of its property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking.

#### SECTION 4. AFFIRMATIVE COVENANTS.

So long as any Loan shall remain unpaid or any Bank shall have any Commitment hereunder and until the expiration, the cancellation and the payment in full or cash collateralization of all Letters of Credit, Subsidiary Guarantor covenants and agrees, unless Requisite Banks shall otherwise consent in writing:

4.1 Corporate Existence, Etc. Except as permitted under Section 5.02(c) of the Credit Agreement, Subsidiary Guarantor shall at all times preserve and keep in full force and effect its corporate existence and all rights and franchises material to its business.

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4.2 Compliance with Laws, Etc. Subsidiary Guarantor shall perform and promptly comply with the requirements of all applicable laws, rules, regulations and orders other than those with which the failure to comply would not have a Material Adverse Effect, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges imposed upon it or upon any of its properties or assets or in respect of any of its franchises, businesses, income or property in accordance with Section 5.01(e) of the Credit Agreement.

4.3 Books and Records. Subsidiary Guarantor shall keep and maintain books of record and account with respect to its operations in accordance with

generally accepted accounting principles and shall permit Agent or any Bank and their respective officers, employees and authorized agents, to the extent Agent in good faith deems necessary for the proper administration of this Subsidiary Guaranty, to examine, copy and make excerpts from the books and records of Subsidiary Guarantor and its Subsidiaries and to inspect the properties of Subsidiary Guarantor and its Subsidiaries, both real and personal, at such reasonable times as Agent may request.

#### SECTION 5. MISCELLANEOUS

5.1 Survival of Warranties. All agreements, representations and warranties made herein shall survive the execution and delivery of this Subsidiary Guaranty.

5.2 Notices. Any communications between Agent and Subsidiary Guarantor and any notices or requests provided herein to be given may be given by mailing the same, postage prepaid, or by telex, facsimile transmission or cable to each such party at its address set forth in the Credit Agreement, on the signature pages hereof or to such other addresses as each such party may in writing hereafter indicate. Any notice, request or demand to or upon Agent or Banks or Subsidiary Guarantor shall not be effective until received.

5.3 Severability. In case any provision in or obligation under this Subsidiary Guaranty shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

5.4 Amendments and Waivers. No amendment, modification, termination or waiver of any provision of this Subsidiary Guaranty, or consent to any departure by Subsidiary Guarantor therefrom, shall in any event be effective without the written concurrence of Requisite Banks under the Credit Agreement; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all Banks change the number of Banks required to take any action hereunder. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

5.5 Headings. Section and Section headings in this Subsidiary Guaranty are included herein for convenience of reference only and shall not constitute a part of this Subsidiary Guaranty for any other purpose or be given any substantive effect.

5.6 APPLICABLE LAW. THIS SUBSIDIARY GUARANTY AND THE RIGHTS AND OBLIGATIONS OF SUBSIDIARY GUARANTOR, AGENT AND BANKS HEREUNDER

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AND ALL OTHER ASPECTS HEREOF SHALL BE DEEMED TO BE MADE UNDER, SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE.

5.7 Successors and Assigns. This Subsidiary Guaranty is a continuing guaranty and shall be binding upon Subsidiary Guarantor and its successors and assigns. This Subsidiary Guaranty shall inure to the benefit of Banks, Agent and their respective successors and assigns. Subsidiary Guarantor shall not assign this Subsidiary Guaranty or any of the rights or obligations of Subsidiary Guarantor hereunder without the prior written consent of all Banks. Any Bank may, without notice or consent, assign its interest in this Subsidiary Guaranty in whole or in part in conjunction with the assignment of its interest in the Guaranteed Obligations. The terms and provisions of this Subsidiary Guaranty shall inure to the benefit of any assignee or transferee permitted under the Credit Agreement, and in the event of such transfer or assignment the rights and privileges herein conferred upon Banks and Agent shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof.

5.8 Consent to Jurisdiction; Waiver of Immunities. Subsidiary Guarantor hereby irrevocably submits to the jurisdiction of any California state or Federal court sitting in Los Angeles, California, in any action or proceeding arising out of or relating to this Subsidiary Guaranty, and Subsidiary Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California state or Federal court. Subsidiary Guarantor hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding. Subsidiary Guarantor hereby irrevocably appoints Borrower as its agent to receive, on behalf of Subsidiary Guarantor and its property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mail or by delivering a copy of such process to Subsidiary Guarantor in care of the agent named above, and Subsidiary Guarantor hereby irrevocably authorizes and directs such agent to accept such service on its behalf. As an alternative method of service, Subsidiary Guarantor also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Subsidiary Guarantor at its address specified in Section 5.2 in accordance with the procedures for service by mail under California. Subsidiary Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Section 5.8 shall affect the right of any Bank or Agent to serve legal process in any other manner permitted by law or affect the right of any Bank or Agent to bring any action or proceeding against Subsidiary Guarantor or its property in the courts of any other jurisdiction.

5.9 Waiver of Trial by Jury. SUBSIDIARY GUARANTOR AND, BY ITS ACCEPTANCE OF THE BENEFITS HEREOF, AGENT EACH HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS SUBSIDIARY GUARANTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Subsidiary Guarantor and, by its acceptance of the benefits hereof, Agent each

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(i) acknowledges that this waiver is a material inducement for Subsidiary Guarantor and Agent to enter into a business relationship, that Subsidiary Guarantor and Agent have already relied on this waiver in entering into this Subsidiary Guaranty or accepting the benefits thereof, as the case may be, and that each will continue to rely on this waiver in their related future dealings and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS SUBSIDIARY GUARANTY. In the event of litigation, this Subsidiary Guaranty may be filed as a written consent to a trial by the court.

5.10 No Other Writing. This writing is intended by Subsidiary Guarantor and Agent as the final expression of this Subsidiary Guaranty and is also intended as a complete and exclusive statement of the terms of their agreement with respect to the matters covered hereby. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Subsidiary Guaranty. There are no conditions to the full effectiveness of this Subsidiary Guaranty.

5.11 Further Assurances. At any time or from time to time, upon the request of Agent or Requisite, Subsidiary Guarantor shall execute and deliver such further documents and do such other acts and things as Agent or Banks may reasonably request in order to effect fully the purposes of this Subsidiary Guaranty.

IN WITNESS WHEREOF, Subsidiary Guarantor has executed this Subsidiary  
Guaranty by its duly authorized officer as of the date first above written.

BW/IP INTERNATIONAL, INC.

By: /s/ ZOHAR ZIV

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Name: Zohar Ziv

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Title: Treasurer

## EMPLOYMENT AGREEMENT

[Executed by R.J. Hornbaker, C.D. McNeal, G.A. Shedlarski, R.F. Shuff, M.E. Vernon, R.B. Wayman, and H.D. Wynn.]

EMPLOYMENT AGREEMENT, dated August 1, 1997 by and between Flowserve Corporation (the "Company") and \_\_\_\_\_, (the "Executive").

This Agreement summarizes the terms and conditions of employment between the Company and the Executive and cancels and supersedes all other employment related agreements between the parties (including any such agreements by and between the Executive and BW/IP, Inc.).

1. Term. This Agreement is effective as of August 1, 1997 and terminates on July 31, 2001 (the "Term").

2. Position and Primary Place of Employment. During the Term, the Executive shall serve as \_\_\_\_\_, or such other position assigned by the Company. Beginning January 1, 1998 (or such later date set by the Company), you will perform your services for the Company at its headquarters in Dallas, Texas.

3. Base Salary. During the Term, your base salary shall be determined by the Company but shall in any event be no less than that in effect on August 1, 1997 ("Base Salary"). The Company shall review your Base Salary annually and make such adjustments as it, in its discretion, determines.

4. Bonus. During the Term, your annual bonus opportunity shall be an amount or percentage of your Base Salary equal to that provided to other peer executives of the Company but shall in any event be no less than your annual bonus opportunity in effect on August 1, 1997 ("Annual Bonus Opportunity").

5. Other Benefits. You shall be eligible for long term incentive opportunities, equity-based compensation and retirement, welfare and fringe benefits equal to those provided to other peer executives of the Company.

6. Termination Benefits. If (i) the Company terminates you without Cause or (ii) you terminate with Good Reason (together, a "Qualifying Termination"), you shall be eligible for the benefits described in Section 7(a). If your employment with the Company is terminated for any other reason (including Disability), you shall be entitled to the benefits described in Section 7(b).

(a) For purposes of this Agreement, "Cause" means your (i) willful and continued failure to perform your duties after you have been requested to do so by the Chief Executive Officer of the Company or (ii) engaging in illegal conduct or gross misconduct that is materially injurious to the Company.

(b) For purposes of this Agreement, "Good Reason" means (i) a substantial, detrimental change in your position, duties or status that the

Company fails to promptly remedy after you provided written notice to the Company's Chief Executive Officer, (ii) a decrease in Base Salary that is not part of a general reduction applied to other peer officers of the Company, (iii) the Company's material failure to comply with its obligations under this Agreement or (iv) the Company terminates



your employment without Cause.

(c) Your employment with the Company shall be terminated due to Disability if you are unable to perform the primary duties of your position for 180 days due to a physical or mental impairment.

7. Termination Benefits.

(a) If your employment with the Company is terminated in a Qualifying Termination you shall receive the following benefits: (i) accrued but unpaid Base Salary to the date of your termination, (ii) any earned but unpaid bonus, (iii) any benefits for which you are eligible under the terms of any Company benefit plan or arrangement, (iv) a pro rata portion of your Annual Bonus Opportunity for the year of termination and (v) Severance Benefits. For purposes of this Agreement, "Severance Benefits" means the product of (X) the sum of your Annual Base Salary as of the date of your termination and the average of the annual bonus actually paid to you during the last two calendar years and (Y) a multiple, which shall be three (3) if your termination occurs before August 1, 1998, two (2) if your termination occurs after July 31, 1998 and before August 1, 1999 or one (1) if your termination occurs on or after August 1, 1999 and on or before July 31, 2001. Subject to Section 8, Severance Benefits shall be paid in equal monthly payments over the number of years equal to the applicable multiple (i.e., 3, 2, or 1 depending on the date of your termination) used to calculate the amount of your Severance Benefits. Subject to Section 8, Severance Benefits shall not be offset or reduced by compensation received from any other source after your Qualifying Termination.

(b) If your employment is terminated before August 1, 2001 in other than a Qualifying Termination, you shall only receive the benefits described in Clauses (i), (ii) and (iii) of Section 7 (a).

(c) By executing this Agreement you acknowledge your ineligibility for, and waive any other right you may have to receive, any other severance or termination benefits provided by the Company or its subsidiaries, except for such benefits as are provided under your contract with the Company which provides severance benefits to you subsequent to and contingent upon a change of control of the Company (the "CIC Benefits"). In the event that you receive any CIC benefits, then you shall be eligible to receive no benefits hereunder.

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8. Non-Competition and Non-Solicitation. During the period in which Severance Benefits are payable, in the case of any Qualifying Termination, or during the one year period following your termination for any other reason, you agree not to (i) engage, anywhere in the world, in any business activity or render any services or advice to any business, activity, person or entity that competes in any material manner with the Company or its subsidiaries or (ii) solicit or otherwise encourage employees of the Company or its subsidiaries to accept employment with or provide services to any other business or entity. If you violate this Section 8, all Severance Benefits shall immediately cease and shall be irrevocably forfeited. In addition, you (i) acknowledge that the Company and its subsidiaries will not have any adequate remedy at law and would be irreparably harmed if you violate this Section 8 and (ii) agree that the Company and its subsidiaries will be entitled to injunctive or equitable relief in the event of any actual or threatened breach of this Section 8. The provisions of this Section 8 will survive the termination of this Agreement.

9. Mandatory Release. In order to receive the severance benefits hereunder, you must execute a general release of all claims against the Company,

its officers, its directors, its affiliates and its employees in a form satisfactory to the Company, immediately prior to the receipt of your first payment of any such benefits. If you fail to execute such release within thirty (30) days of your termination from the Company, you will forfeit the right to such benefits.

10. Choice of Law. This Agreement shall be governed by the law of New York, without regard to its choice of law provisions.

IN WITNESS WHEREOF, the Executive and the Company have entered into this Agreement as of the date first written above.

EXECUTIVE

FLOWSERVE CORPORATION

By:

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Bernard G. Rethore  
Chairman and CEO

## FLOWSERVE CORPORATION

## AMENDMENT #1

TO

## AMENDED AND RESTATED DIRECTOR DEFERRAL PLAN

Pursuant to Section 9 of the Amended and Restated Director Deferral Plan (the "Plan") of Flowserve Corporation, the Plan is hereby amended, effective October \_\_\_\_, 1997, by authorization of the Board of Directors, as follows:

1. The penultimate sentence of Section 4(a) is amended by inserting a period after the words "July 1, 1995" and deleting the remainder of the sentence.

2. Section 4(e) is amended by inserting a period after the words "calendar quarter" in the first sentence and deleting the remainder of the Section.

3. Exhibit A, Director's Election to Defer, is amended as follows:

A. Election item 2 is amended by deleting the asterisk and the words "\*cash deferral required for the six months immediately following election to comply with law; stock deferral then starts."

B. Acknowledgement item 2 is amended by inserting a period after the words "is paid" and deleting the remainder of the item.

C. Acknowledgement item 5 is deleted in its entirety, and former acknowledgement item 6 is renumbered as 5.

CONFIRMED:

FLOWSERVE CORPORATION

By: R.F. Shuff

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Ronald F. Shuff

Vice President, General Counsel  
and Secretary

## FLOWERVE CORPORATION

## AMENDMENT #1

## TO

## 1989 RESTRICTED STOCK PLAN

(AS AMENDED AND RESTATED OCTOBER 23, 1996)

Pursuant to Article IV, Section 3 of the 1989 Restricted Stock Plan, as amended and restated October 23, 1996 (the "Plan"), of Flowserve Corporation, the Plan is hereby amended, effective October 23, 1997, by authorization of the Board of Directors, as follows:

1. Article I, Section 2(k) is amended to read as follows:

- (k) "Restriction Period" means, (i) in the case of Eligible Employees, a period of whole years, not less than one nor more than ten, as determined by the Committee at the time of grant, from the date the Restricted Shares are granted and, (ii) in the case of Eligible Directors, the period between the Grant Date and,
- (1) in the case of an Eligible Director who received 600 Restricted Shares (or 900 Restricted Shares after giving effect to the 1994 share dividend that had the effect of a three-for-two stock split, hereinafter referred to as the "1994 Share Dividend") at any Meeting from 1993 to 1997, inclusive, (i) the immediately following Meeting for one-third of the shares, (ii) the second immediately following Meeting for one-third of the shares, and (iii) the third immediately following Meeting for the balance of the shares;
- (2) in the case of an Eligible Director who received 400 Restricted Shares (or 600 Restricted Shares after giving effect to the 1994 Share Dividend) at any Meeting from 1993 to 1997, inclusive, (i) the immediately following Meeting for one-half of the shares, and (ii) the second immediately following Meeting for the balance of the shares;
- (3) in the case of an Eligible Director who received 200 Restricted Shares (or 300 Restricted Shares after giving effect to the 1994 Share Dividend) at any Meeting from 1993 to 1997, inclusive, the immediately following Meeting for all such Restricted Shares;
- (4) in the case of an Eligible Director who received 212 Restricted Shares at the 1993 Meeting, (i) the 1994 Meeting for 106 of such Restricted Shares and (ii) the 1995 Meeting for the remaining 106 Restricted Shares;

- (5) in the case of an Eligible Director who received 96 Restricted Shares at the 1993 Meeting, the 1994 Meeting for all such 96 Restricted Shares;
- (6) in the case of an Eligible Director who received either 300 Restricted Shares or 600 Restricted Shares in December 1997, the first anniversary of the grant of such shares;
- (7) in the case of an Eligible Director who received a grant of Restricted Shares prior to the 1993 Annual Meeting, the date determined under this Article I, Section 2(k) in its form prior to the 1993 Annual Meeting, which prior form is incorporated herein by reference for and as applicable to such prior grants; and
- (8) in the case of an Eligible Director who receives a grant pursuant to Article II, Section 1(b), the first anniversary of the Grant Date.

2. Article II, Section 1(a) is amended to read as follows:

Section 1. Grant of Restricted Shares to Eligible Directors.

- (a) The Company has granted Restricted Shares to Eligible Directors prior to the 1993 Annual Meeting pursuant to the provisions of this Article II, Section 1 in effect prior to the 1993 Annual Meeting, which provisions are incorporated by reference as applicable to such prior grants. On the date of the 1993 Meeting and on the date of each Annual Meeting thereafter to and including the 1997 Meeting, the Company, in consideration of past and future service by the Eligible Director, granted 600 Restricted Shares (900 Restricted Shares after giving effect to the 1994 Share Dividend) to each then Eligible Director who was elected to a three year term of the Board of Directors on the Grant Date. Additionally, on the date of the 1993 Meeting, the Company granted 212 Restricted Shares to each then Eligible Director who had two years remaining in his term of office at that time. The Company similarly granted, on the date of the 1993 Meeting, 96 Restricted Shares to each then Eligible Director who had one year remaining in his term of office at that time. The Company granted, at each Meeting from 1993 to 1997, inclusive, 400 Restricted Shares (600 Restricted Shares after giving effect to the 1994 Share Dividend) to each then Eligible Director who was elected to a two year term at the Meeting, and 200 Restricted Shares (300 Restricted Shares after giving effect to the 1994 Share dividend) to each then Eligible Director who was then elected to a one year term at such Meeting. Finally, in December 1997 the Company made a one-time grant (i) of 300 Restricted Shares to each Eligible Director who had already received 300 Restricted Shares at the 1997 Meeting and (ii) 600 Restricted Shares to each Eligible Director who became a director after the 1997 Meeting.

3. Article II, Section 1(b), reading as follows, is added to the Plan:

(b) At the 1998 Meeting, the Company, in consideration of past and future services by the Eligible Director, shall grant 600 Restricted Shares to each then Eligible Director whose term in office commences at, or continues after, the Meeting. Unless otherwise determined by the Board of Directors, certificates for such Restricted Shares shall be issued and delivered one month after such Meeting.

CONFIRMED:

FLOWSERVE CORPORATION

By /s/ Ronald F. Shuff

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Ronald F. Shuff  
Vice President, General  
Counsel and Secretary

The World's Premier Provider of Industrial Flow Management Services

[FLOWSERVE LOGO]

FLOWSERVE 1997 ANNUAL REPORT

ABOUT THE COMPANY

Flowserve Corporation (NYSE:FLS) was formed in July 1997 by the merger of BW/IP, Inc. and Durco International Inc. Operating in 28 countries, with approximately 7,200 employees, Flowserve is one of the world's leading providers of industrial flow management services. The company produces engineered pumps for the process industries, precision mechanical seals, automated and manual quarter-turn valves, control valves actuators, and a range of related flow management services.

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## FINANCIAL HIGHLIGHTS

(Historical financial information has been restated to reflect the merger of Durco International Inc. and BW/IP, Inc. under the pooling of interests method of accounting. See notes to Consolidated Financial Statements)

(Amounts in thousands except ratios and per share data)	1997	1996	1995
<b>RESULTS OF OPERATIONS</b>			
Net sales	\$ 1,152,196	\$ 1,097,645	\$ 983,917
Net earnings	\$ 51,566 (a)	\$ 71,097 (b)	\$ 54,021 (c)
Average shares outstanding	40,896	41,363	41,652
Net earnings per share (diluted and basic)	\$ 1.26 (a)	\$ 1.72 (b)	\$ 1.30 (c)
Dividends paid per share	\$ 0.65	\$ 0.57	\$ 0.51
Bookings	\$ 1,172,431	\$ 1,141,614	\$ 1,013,861
Backlog	\$ 291,568	\$ 287,076	\$ 249,562
<b>PERFORMANCE RATIOS (AS A PERCENT OF NET SALES)</b>			
Gross profit margin	39.0%	39.1%	39.9%
Selling and administrative expense	24.8%	25.8%	26.9%
Research, engineering and development expense	2.3%	2.2%	2.5%
Earnings before income taxes	7.8% (a)	9.9% (b)	9.0% (c)
Net earnings	4.5% (a)	6.5% (b)	5.5% (c)
<b>FINANCIAL CONDITION</b>			
Cash and cash equivalents	\$ 58,602	\$ 38,933	\$ 28,596
Working capital	\$ 284,220	\$ 279,972	\$ 251,774
Total assets	\$ 880,025	\$ 829,776	\$ 801,120
Capital expenditures	\$ 39,560	\$ 35,691	\$ 39,928
Depreciation and amortization	\$ 38,933	\$ 36,665	\$ 34,451
Long-term debt	\$ 128,936	\$ 143,962	\$ 125,931
Shareholders' equity	\$ 395,273	\$ 388,624	\$ 375,246
<b>FINANCIAL RATIOS</b>			
Return on average shareholders' equity	13.0% (a)	18.6% (b)	15.1% (c)
Return on average net assets	9.0% (a)	12.5% (b)	10.4% (c)
Debt to capital ratio	27.1%	30.0%	27.9%
Current ratio	2.2	2.5	2.3
Book value per share	\$ 9.67	\$ 9.40	\$ 9.01

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

- (a) Financial results in 1997 include restructuring and merger expenses of \$51,513 and gain on sale of subsidiary of \$11,376 resulting in a reduction in net earnings of \$30,483, or \$.75 per share after tax.
- (b) Financial results in 1996 include restructuring expenses of \$5,778 resulting in a reduction in net earnings of \$3,025, or \$.07 per share after tax.
- (c) Financial results in 1995 include merger transaction expenses of \$5,042 resulting in a reduction in net earnings of \$4,399, or \$.10 per share after tax.

## NET SALES

In millions of dollars

[BAR GRAPH]

1993	1994	1995	1996	1997
\$ 849.0	\$ 909.2	\$ 983.9	\$1,097.6	\$1,152.2

EARNINGS PER SHARE  
(DILUTED AND BASIC)

[BAR GRAPH]



	1993	1994	1995	1996	1997
Before special items	\$ 1.32	\$ 1.23	\$ 1.40	\$ 1.79	\$ 2.01
After special items	\$ 0.53	\$ 1.23	\$ 1.30	\$ 1.72	\$ 1.26

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DEAR FELLOW STOCKHOLDER:

In July 1997, two independently successful companies, BW/IP, Inc. and Durco International Inc., merged their respective strengths and specialties in the flow management industry to create a powerful new global leader -- Flowserve Corporation. The merger of these two well-established corporations has created a more balanced, financially stronger, dynamic new Company with a fresh identity, a streamlined organization and greater competitive capabilities worldwide.

Flowserve was formed through a merger of equals, a strategic business alliance with a broadened vision for the new millennium -- to be a single-source, quick-response solution for all of our customers' flow management needs, no matter where in the world that need exists.

The merger has produced immediate results, as the combined Company reported record sales, bookings and earnings before special items last year. This excellent performance is especially noteworthy because it was achieved at the same time we were launching a broad program of merger integration initiatives that will produce significant tangible benefits for stockholders and customers alike in the future.

The Company reported combined income before special items of \$82.1 million compared with \$74.1 million in 1996. Income before special items per diluted share increased to \$2.01 compared with income before special items per diluted share of \$1.79 for the combined predecessor companies in 1996. This represents a 12 percent increase, which met our ongoing goal of double-digit growth in annual earnings.

Net income for the year, after recognizing the effect of special items, was \$1.26 per diluted share. Special items included one-time merger transaction expenses of \$11.9 million, a one-time restructuring charge of \$32.6 million in the fourth quarter, merger integration expenses of \$7.0 million, and a pre-tax gain on the sale of the Metal Fab Machine Corporation subsidiary of \$11.4 million.

Sales for the year were a record \$1.15 billion, an increase of five percent over combined sales of \$1.10 billion in 1996. This result was achieved despite an adverse currency translation effect of four percent, which reduced sales by \$46 million.

Bookings, an important measure of the progress of the Company and the strength of its markets, reached a record \$1.17 billion, a three-percent increase over combined bookings of \$1.14 billion in 1996. Bookings for the year also were lowered by four percent due to currency translation effects.

An important advantage as we plan for the future is the fact that the merger was done as a pooling, with no debt added to the balance sheet. We ended the year in a strong financial condition, with a conservative debt to capital ratio, strong cash flow, ample borrowing reserves and the ability to fulfill our growth strategies as we move forward.

Following approval by shareholders on July 22, the merger got off to a rapid start. The Company's Board of Directors approved a merger integration program that includes a total investment of approximately \$92 million. This program is far ranging, with more than 45 projects that will make us much more efficient and improve capacity utilization. We estimate the program will produce cost

savings and revenue increases that will result in benefits in a range of \$45-\$55 million annually in operating income at the end of three years.

In addition to the merger itself, 1997 included a number of significant accomplishments. Important organizational changes were completed, creating major cost savings potential, generating a wealth of new marketing and sales opportunities, and facilitating communications, coordination and customer service company-wide. We combined the two companies' prior pump businesses into a Rotating Equipment Division, combined the prior seal businesses into a Fluid Sealing Division and combined the prior valve businesses into a Flow Control Division. We broadened our operating approach by establishing ServiceRepair as a new area of emphasis, providing customers a broad array of pump, seal, valve and service alternatives united under a strong global brand.

Combining business units is one part of the formula. Facility and business rationalization has been an equally important thrust to build value. We closed the corporate headquarters of Durco in Dayton, Ohio and BW/IP in Long Beach, California and united corporate and division managements in a new international headquarters in Dallas, Texas. We closed a high-cost pump manufacturing plant in Charleroi, Belgium and transferred production to plants in Hengelo and Etten-Leur, The Netherlands. We announced plans to phase

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out the Company's San Jose, California pump assembly and test facility by mid-1998 and transfer production to an existing facility in Los Angeles, California. We sold the company's Metal Fab Machine Corporation subsidiary, a non-core business, for approximately \$19 million in cash. Combined, these programs allow a net headcount reduction of more than 450.

A number of additional efforts will supplement the merger integration program and improve our operational, financial, and sales and marketing capabilities. We have initiated a 50 percent expansion of capacity of the large-component manufacturing center in Albuquerque, New Mexico. We started multiple procurement savings initiatives, including a global sourcing program. We negotiated a new five-year revolving credit line of \$150 million, with an option for an additional \$50 million, and launched a project to reduce the Company's 1998 tax rate. We are preparing a plan for a large-scale, multi-year upgrade of the Company's information systems. In the fourth quarter, the Company opened two new valve plants and a pump plant in India. The low-cost, high-quality output from these plants provides a model for improving our ability to source competitively to Asia and Europe.

In 1997, BW/IP and Durco also completed initiatives prior to the merger that will prove beneficial to the company going forward. These included the acquisitions of the assets of Anchor-Darling Valve in Williamsport, Pennsylvania and the engineered pumps group of Stork Pompen in The Netherlands, both of which contributed to 1997's sales and profit growth, and the divestiture of the Filtration Systems Division, each with results that exceeded objectives.

Of course, as is true with any large, goal-oriented enterprise, there were also some disappointments that went along with the successes. Last year we experienced a business environment characterized by declining currency values outside the United States and market demand that was not as robust as we had expected when 1997 began. As a result, we fell short of our internal growth objectives. The merger process also forced us to postpone projects for building internal excellence and these will be resumed as the merger integration proceeds.

As we look ahead to 1998, it is clear the merger is on a fast track, and we already have begun to realize the benefits from reducing expenses and cross-selling products and services to customers. The synergies created by the merger, the fundamental soundness of our markets, and our recent financial results make us confident about the future. Flowserve is a well-focused company

with many opportunities to grow on a strong financial base.

As always, all the planning, forecasting and implementation associated with a merger of this magnitude would not be possible without the dedication and enthusiasm of our employees around the world and we would like to give them special thanks. Flowserve's employees have stayed focused on their principal activities of serving customers and running the business well while energetically taking on the many critical projects that are necessary to make the merger successful.

We would also like to recognize the support of our exceptional Board of Directors. In addition to the five Durco Directors and four BW/IP Directors who remained on the Flowserve Board, we added George T. Haymaker, Jr., Chairman and Chief Executive Officer of Kaiser Aluminum Corporation, and Charles M. Rampacek, President and Chief Executive Officer of Lyondell-Citgo Refining Company. Both bring valuable perspective to a diverse and dedicated Director group.

We thank you as stockholders for sharing our faith in the ability of our people to be successful. The new company created significant value for shareholders during 1997. We are committed to having Flowserve build even greater value in the future.

/s/ BERNARD G. RETHORE

Bernard G. Rethore  
Chairman and Chief Executive Officer

/s/ WILLIAM M. JORDAN

William M. Jordan  
President and Chief Operating Officer

[CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND PRESIDENT AND  
CHIEF OPERATING OFFICER PICTURED HERE]

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#### BROAD GEOGRAPHIC COVERAGE

The merger of BW/IP and Durco has propelled Flowserve to first position among publicly traded flow control companies in the United States, creating one of the largest competitors in the global flow management industry. Moving forward into the 21st century, Flowserve plans to build on this large competitive platform as it pursues growth in markets around the world. Expanding geographic market coverage, with emphasis on markets outside Europe and North America, is a critical component of the Company's strategic efforts to serve our customers and assure future success.

With a geographic reach that spans several continents, Flowserve is well prepared to compete successfully against challenging worldwide competition. Many of Flowserve's customers are large, global companies that require a full complement of industrial flow management services wherever they are located. The new Company can serve the needs of the largest companies in the global process industries, offering many more products and services than smaller regional and local competitors, and delivering them to more locations.

Nearly one-half of the Company's sales in 1997 were to destinations outside the United States, including Europe and the Middle East (24 percent), Asia/Pacific (11 percent) and Latin America, Canada and other destinations (13 percent).

The Company operates 44 manufacturing facilities and 88 service and quick

response centers in 28 countries (see map, page 13). Flowserve also relies on a wide network of sales offices, distributors and licensees to expand sales reach and customer service access. Products and services were sold in 80 countries last year.

A primary contributor to the Company's growth is the demand for servicing the large installed base of Flowserve equipment with aftermarket parts and services. An important Company strategy is to enlarge Flowserve's network of free-standing service centers, upgrade existing centers to provide the most comprehensive and convenient repair and maintenance services for all flow control products, and establish on-site service capabilities at customer operations. In addition, Flowserve will continue to expand its diagnostics capabilities.

As the merger integration process continues forward, Flowserve will follow the practice of sourcing raw materials, components and production from the countries and plants that provide the best combination of cost and capability from the customer's standpoint. Using an integrated manufacturing strategy, a number of Company plants are producing machined parts, components and subassemblies that are shipped to other locations for final assembly, test and shipment to the customer.

Based on expectations for increased demand for energy and basic chemicals in the emerging economies, Flowserve will continue to invest in the Latin America and Asia/Pacific regions. Despite possible short-term setbacks for some projects in the Asia/Pacific area, long-term business drivers in these regions include: the need for emerging countries to expand their infrastructure; privatization of their economies; transportation growth; and, to power it all, increasing energy demand. Growth in these markets will be supported by the addition of new facilities, strategic alliances, joint ventures, acquisitions, and joint licensing and marketing agreements.

[NORTH AMERICAN/SOUTH AMERICA GLOBAL MAP]

[ASIA/PACIFIC GLOBAL MAP]

[EUROPE/MIDDLE EAST GLOBAL MAP]

[BROAD GEOGRAPHIC COVERAGE PIE CHART]

Other	13%
Asia/Pacific	11%
Europe/Middle East	24%
USA	52%

[PICTURE OF PIPES]

[PICTURE OF PLANT]

[PICTURE OF POWER LINES]

[ATTRACTIVE MARKETS PIE CHART]

Food/Beverage	4%
Pharmaceuticals	5%
Power	15%
Chemicals	32%

Petroleum	32%
Other Industry	12%

## ATTRACTIVE MARKETS

Flowserve serves the worldwide process industries -- primarily petroleum (32 percent of sales), chemicals (32 percent of sales) and power generation (15 percent of sales). As these markets historically tend to follow different cycles, the Company is less vulnerable to economic changes than were its predecessor companies individually.

The process industries are characterized by global companies with large investments in major areas of the world. Because of this geographic diversity, the Company is less subject to economic pressures in any one region.

Flowserve specializes in products for severe service applications where operating environments require precision-engineered equipment that can withstand extremes of temperature, pressure, horsepower, speed and corrosiveness. These products must have robust designs, extreme reliability and exceptional operating performance.

The petroleum market is characterized by strong capital and maintenance expenditures by the oil companies, high worldwide refinery utilization rates, increased spending on new refinery capacity in the Middle East and Latin America, and continued growth in the worldwide demand for petroleum products. Privatization of the oil industry in selected emerging countries is expected to attract financing that will provide even greater opportunities for additional investments in this sector. However, customers' expectations of movements in the price of oil may influence their decisions regarding the timing of investments.

Flowserve's participation includes supplying process equipment principally to the refining and pipeline segments of the petroleum industry, which represent approximately 60 percent of worldwide oil industry spending. Total oil industry capital spending was up five percent in 1997, and maintenance expenditures alone increased nine percent.

The chemical market, especially over the longer term, is being driven by higher spending on operating and efficiency improvements and increasingly strict environmental requirements. However, current economic conditions in Asia have reduced growth expectations in worldwide polyethylene and polypropylene markets and are expected to lead to lower chemical industry profitability in 1998.

Flowserve is a leading supplier of corrosion-resistant fluid movement and control equipment to the basic chemical industry, which represents 52 percent of the worldwide chemical market.

In the power market, energy demand remains strong, particularly in emerging markets, but the timing and funding of new projects remains uncertain. Currently, more than 100 countries are supporting the expansion of their private power industries, which could lead to the sale of additional equipment, particularly for cogeneration projects.

The relatively low level of maintenance spending in the power industry in North America and Europe in recent years has created the potential for increased upgrade and retrofit of a large, aging equipment base. The economic forces of deregulation, however, have temporarily suppressed capital spending in these markets.

Flowserve maintains a world leadership position in nuclear power equipment design and manufacturing, and retains a solid market franchise in selling replacement parts for nuclear pumps and valves.

Accelerating customer outsourcing of repair and maintenance activities in the process industries is giving rise to new strategic supplier alliances between Flowserve and its largest customers, and adding greater momentum to the higher-margin service and repair business.

#### BALANCED PRODUCT MIX

Flowserve is remarkable within the flow management industry in its exceptionally balanced and complementary product mix. Flowserve's 1997 sales were comprised of 45 percent pumps, 28 percent seals and 27 percent valve products. Major product categories include American Petroleum Institute (API), American National Standards Institute (ANSI) and International Standards Organization (ISO) pumps, mechanical and dry gas seals, and manual and automated quarter-turn valves, control valves and valve actuators.

As the world's premier provider of industrial flow management services, Flowserve delivers equipment and services covering a broad spectrum of customers' flow management needs.

The Rotating Equipment Division manufactures engineered pumps for the process industries including horizontal split-case pumps, barrel pumps, specialty pumps, and nuclear pumps and pump parts.

The Flow Control Division produces a broad line of valve products, from manual and automated quarter-turn valves to automatic control valves, nuclear valves and valve actuators.

The Fluid Sealing Division manufactures a complete line of precision-engineered mechanical seals, sealing systems and accessories, and technologically advanced dry gas seals.

Combining materials expertise, advanced design and engineering capabilities, and applications experience, the Company develops and manufactures products that are responsive to the process industries' mandate to achieve greater manufacturing efficiencies, extend mean-time-between-failure, and reduce overall maintenance costs.

Product reliability is further endorsed through compliance with many industry-recognized standards, including those set by API, ANSI and ISO. In support of its advanced capabilities in the design and production of nuclear pumps and valves, Flowserve maintains a Nuclear Stamp quality certification from the American Society of Mechanical Engineers (ASME). In addition, a majority of the Company's manufacturing facilities hold standards qualifications from ISO, certifying that quality-management systems conform with international standards regarding product testing, employee training, record keeping and quality control.

The Company's future growth will be propelled, in part, by market-oriented technology improvements. Flowserve is investing in research and development and engineering initiatives that will reduce the cost of producing current products, extend product lines, and lead to new products for existing and new markets. Technical expertise, innovative research in pump, valve and seal design, and knowledge of applied engineering techniques make Flowserve a technological leader in the industry.

[PICTURE OF FLOW CONTROL PRODUCTS]

[PICTURE OF SEALING PRODUCTS]

[BALANCED PRODUCT MIX PIE CHART]

Valves	27%
Pumps	45%
Seals	28%

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[PICTURE OF OUTSOURCING SERVICES]

[PICTURE OF REPAIR AND MAINTENANCE]

[CHART]

[PICTURE OF FLOWSERVICE CENTER]

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#### FOCUS ON SERVICE

Flowserve's new ServiceRepair Division represents a new concept in service for Flowserve and for the flow management industry, and is a fundamental part of the Company's growth strategy. The ServiceRepair Division is focused on providing world-class service and repair support under a strong global brand.

The ServiceRepair concept offers an outstanding opportunity to build closer relationships with established customers, create new sources of recurring revenue, and expand the Company's overall served market. This new concept is facilitated by the merger, which provides the opportunity to combine expertise across products used by the Company's customers. Through a multifaceted strategy, Flowserve is positioning itself to become a leader in providing service, repair and diagnostics to the process industries.

ServiceRepair places more emphasis on service activities that represent typically higher-margin and more-stable portions of the flow management market. Traditional business practice in the industry has been to first sell original equipment to customers and then service that installed base of equipment with replacement parts, maintenance and repairs over its lifetime. While remaining an important part of Flowserve's total business, this type of growth is largely limited by the Company's ability to increase its sales of original equipment.

The ServiceRepair Division is a conduit to expanding beyond simply servicing the Company's installed base. Taking over non-core competencies of our customers -- for example, in maintenance -- can create a new and larger market that draws on the Company's depth of technical and product knowledge. This growth strategy is designed to generate higher-margin business that builds customer value and can be developed with relatively low capital expenditures.

One important part of the strategy is to enlarge Flowserve's global network of 88 service and quick response centers located in 24 countries. The network will be expanded to include new locations, while markets that currently have multiple centers because of overlap from the merger will be consolidated. In the future, Flowserve service centers will be unique in the industry, offering "one-stop shopping" for repair and maintenance of all flow control products, including pumps, valves, seals, and related products and systems.

ServiceRepair both supports and is supported by the Company's product manufacturing businesses. Parts sales and cross-selling revenues are generated

by the ServiceRepair Division while, at the same time, the division provides full-service support to the customers of the product divisions.

Opportunities also exist to develop new service businesses in areas such as diagnostics, equipment upgrade, and the application of smart technologies to existing process control systems. For example, through a grant from the European Community, Flowserve is building the tools required for highly accurate diagnostics, and is quickly developing a business base for these technologies in Europe and the United States.

The ServiceRepair Division plans to take full, global advantage of the trend toward increased outsourcing of maintenance, service and repair. In some cases, this will involve placing Flowserve service centers directly inside customers' facilities.

ServiceRepair is a response to customers' desire to increase their mean-time-between-failure and keep their products operating efficiently, while reducing maintenance costs and receiving a high level of service. The ServiceRepair Division provides real value to customers and places Flowserve on the cutting edge of the industry.

#### WORLDWIDE LOCATIONS

The engineered segments of the pump, seal and valve markets, which require sophisticated equipment to move fluids in environments that span extremes of temperature, pressure, horsepower and speed, are the most global of the market segments in terms of customers, applications and suppliers. These are the arenas in which the Company concentrates, making Flowserve's extensive worldwide coverage one of its primary strengths.

#### PLANTS

		SERVICE AND QUICK RESPONSE CENTERS
UNITED STATES	INTERNATIONAL	UNITED STATES
Los Angeles, California	Mendoza, Argentina	Birmingham, Alabama
Temecula, California	Botany, NSW, Australia	Wasilla, Alaska
Burr Ridge, Illinois	Scoresby, Victoria, Australia	El Dorado, Arkansas
Kalamazoo, Michigan	Petit Rechain, Belgium	Benicia, California
Lake Ann, Michigan	Sao Paulo, Brazil	Carson, California
Albuquerque, New Mexico	Edmonton, Alberta, Canada	Chico, California
Santa Fe, New Mexico	Woodbridge, Ontario, Canada	Los Angeles, California
Cincinnati, Ohio	Lille, France	Tampa, Florida
Dayton, Ohio	Thiers, France	Burr Ridge, Illinois
Springboro, Ohio	Ahaus, Germany	Elgin, Illinois
Tulsa, Oklahoma	Dortmund, Germany	Posen, Illinois
Williamsport, Pennsylvania	Essen, Germany	Ashland, Kentucky
Cookeville, Tennessee	Limburg, Germany	Baton Rouge, Louisiana
Provo, Utah	Bangalore, India	Midland, Michigan
Springville, Utah	Hubli, India	Bridgeport, New Jersey
	Madras, India	Charlotte, North Carolina
	Cormano, Italy	Cincinnati, Ohio
	Osaka, Japan	Tulsa, Oklahoma
	Seoul, Korea	Boothwyn, Pennsylvania
	Santa Clara, Mexico	Pittsburgh, Pennsylvania
	Tlaxcala, Mexico	Florence, South Carolina
	Etten-Leur, The Netherlands	Kingsport, Tennessee
	Hengelo, The Netherlands	Beaumont, Texas
	Roosendaal, The Netherlands	Corpus Christi, Texas
	Auckland, New Zealand	Freeport, Texas
	Dammam, Saudi Arabia	Houston, Texas
	Singapore	Plainview, Texas
	La-Chaux-de-Fonds, Switzerland	Texas City, Texas
	Milton Keynes, United Kingdom	Salt Lake City, Utah
		Dunbar, West Virginia



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[MAP OF COUNTRIES]

- o Plants
- o Service and Quick Response Centers

SERVICE AND QUICK  
RESPONSE CENTERS  
CONTINUED

INTERNATIONAL

Buenos Aires, Argentina  
Mendoza, Argentina  
Botany, NSW, Australia  
Perth, Australia  
South Fremantle, Western Australia  
Sydney, NSW, Australia  
Antwerp, Belgium  
Edmonton, Alberta, Canada  
Leduc, Alberta, Canada  
Scarborough, Ontario, Canada  
St. Thomas, Ontario, Canada  
Woodbridge, Ontario, Canada  
Martigues, France  
Friedland-Reiffenhausen, Germany  
Hornburg, Germany  
Batam Island, Indonesia

Augusta, Sicily, Italy  
Cormano, Italy  
Milan, Italy  
San Giovanni, Italy  
Tokyo, Japan  
Kemaman, Kuala Terengganu, Malaysia  
Selangor, Malaysia  
Coatzacoalcas, Veracruz, Mexico  
Monterrey, Mexico  
Santa Clara, Mexico  
Etten-Leur, The Netherlands  
Hengelo, The Netherlands  
Roosendaal, The Netherlands  
Manila, Philippines

Manati, Puerto Rico  
Al-Khobar, Saudi Arabia  
Singapore  
Madrid, Spain  
Tarragona, Spain  
Oensingen, Switzerland  
Yen Chao, Kaohsiung, Taiwan  
Bangkok, Thailand  
Rayong, Thailand  
Abu Dhabi, United Arab Emirates  
Manchester, United Kingdom  
Salford, United Kingdom  
Maracaibo, Venezuela  
Punto Fijo, Venezuela

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW

Flowserve Corporation (the Company or Flowserve) was created on July 22, 1997, through a merger of equals between BW/IP, Inc. and Durco International Inc. accounted for under "pooling of interests" accounting. Accordingly, all historical information has been restated giving effect to the transaction as if the two companies had been combined at the beginning of all periods presented. In addition, certain other historical information has been reclassified for consistency with the 1997 presentation.

Flowserve produces engineered pumps for the process industries, precision mechanical seals, manual and automated quarter-turn valves, control valves and valve actuators, and provides a range of related flow management services to a diverse customer base worldwide. Equipment manufactured and serviced by the Company is used in industries that utilize 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 U.S. and other countries where its products are sold and serviced, and by the relationship of the U.S. dollar to other currencies, and demand and pricing for customers' products. The impact of these conditions is mitigated to some degree by the strength and diversity of Flowserve's product lines and geographic coverage.

## RESULTS OF OPERATIONS

The Company's condensed consolidated financial results for the last three years are summarized below:

(Dollar amounts in millions, except per share data)	1997	1996	1995
Net sales	\$ 1,152.2	\$ 1,097.6	\$ 983.9
Gross profit	448.9	428.9	392.4
Selling and administrative expense	285.9	283.3	264.4
Research, engineering and development expense	26.9	24.5	24.7
Merger and restructuring expenses	51.5	5.8	5.0
Operating income	84.6	115.3	98.3
Net earnings	\$ 51.6	\$ 71.1	\$ 54.0
Per share data (diluted and basic):			
Net earnings	\$ 1.26	\$ 1.72	\$ 1.30
Special items	.75	.07	.10
Earnings before special items	2.01	1.79	1.40
Bookings	\$ 1,172.4	\$ 1,141.6	\$ 1,013.9
Backlog	\$ 291.6	\$ 287.1	\$ 249.6

Net sales increased to \$1,152.2 million, and favorably compared with sales of \$1,097.6 million in 1996 and \$983.9 million in 1995. The increase in net sales in 1997 reflects stronger global demand for pump products, mechanical seals, engineered valves, and sales from recently acquired entities. Partially offsetting the increase in sales in 1997 was the translation impact of the strong U.S. dollar against foreign currencies, which negatively impacted net sales by approximately \$46 million and the sale of the filtration systems business in May of 1997, which contributed \$9 million in additional sales in 1996. Sales increases in 1996 compared with 1995 reflected strong shipments across all geographic regions as the Company's major customers had high levels of capital spending. In addition, the Company benefitted from a more competitive pricing position as a result of a restructuring of its North American engineered pump operations which was initiated in 1993 and completed in 1996.

Net sales to international customers, including export sales from the U.S., were 48.0% in 1997, 52.2% in 1996 and 49.5% in 1995. The reduction in international contributions in 1997 primarily reflected the currency translation impact of the weaker European and Asian currencies.

Gross profit margin as a percent of net sales of 39.0% in 1997, was relatively flat compared with 39.1% in 1996 and slightly less than the 39.9% in 1995. The reduction from 1995 to 1996 was related to a less

favorable product mix, including a higher percentage of lower-margin engineered pump original equipment sales, lower sales of profitable nuclear aftermarket products and competitive pricing pressures in the industry. These factors continued in 1997, but were offset by cost controls which kept the margin in 1997 relatively flat compared with 1996. Selling and administrative expenses as a percent of net sales were 24.8% in 1997, compared with 25.8% in 1996 and 26.9% in 1995. In part, the reduction in selling and administrative expenses as a percentage of net sales compared with prior years was a result of restructuring

programs completed in the U.S. and Europe in 1997 and 1996. Additionally, the Company continued to leverage selling and administrative expense as a percent of net sales.

Research, engineering and development expenses were \$26.9 million in 1997, compared with \$24.5 million in 1996 and \$24.6 million in 1995. Whereas the spending level increased in 1997, as a percentage of sales it was 2.3%, which was consistent with 1996 and slightly lower than in 1995.

The effective tax rate for 1997, including special items, was 42.6%, compared with 34.4% in 1996 and 38.9% in 1995. The increase in the effective tax rate resulted from merger transaction expenses, some of which are not tax deductible, partially offset by the utilization of certain tax benefits recognized on the sale of its subsidiary Metal Fab Machine Corporation ("Metal Fab"). Excluding the tax impact of the merger transaction expenses and the sale of Metal Fab, the effective tax rate was 36.9% for 1997. The tax rate of 34.4% in 1996 was reduced due to one-time benefits associated with restructuring of certain of the Company's European entities and significantly higher utilization of tax loss carry-forwards in the Company's Asia/Pacific and European operations than in the prior year.

Net earnings, after merger transaction, integration and restructuring expenses and a gain on sale of Metal Fab ("special items"), were \$51.6 million in 1997, compared with \$71.1 million in 1996 and \$54.0 million in 1995. The related net earnings per diluted share, after special items, were \$1.26 in 1997, compared with \$1.72 per diluted share and \$1.30 per diluted share in 1996 and 1995, respectively. The Company's potentially dilutive common stock equivalents were immaterial in 1997 and all previous years. Accordingly, diluted earnings per share were equal to basic earnings per share for all periods presented.

Earnings before special items were \$82.1 million in 1997, compared with \$74.1 million in 1996 and \$58.4 million in 1995. Earnings per diluted share before special items were \$2.01 in 1997, compared with \$1.79 in 1996 and \$1.40 in 1995.

Bookings of \$1,172.4 million in 1997 compared with \$1,141.6 million in 1996 and \$1,013.9 million in 1995. The Company acquired Anchor/Darling Valves in December 1996 and the engineered pump business of Stork Pompen in The Netherlands in January 1997. These two acquisitions contributed approximately \$45 million of bookings in 1997. In addition, bookings for automated valves and mechanical seals were stronger in 1997 than 1996. These increases were offset by adverse effects of foreign exchange translation, which reduced total bookings by approximately \$48 million (or 4%) and weaknesses in the chemical industry in the second half of the year. Bookings in 1996 exceeded 1995 levels due primarily to aggressive capital spending by the worldwide processing industries. Petroleum market original equipment was especially strong in 1996 compared to 1995 (up 30.4% year-over-year) with strength specifically in North America and Europe.

#### MERGER INTEGRATION PROGRAM

In the fourth quarter of 1997, the Company announced its merger integration program. This \$92.4 million program includes investments of approximately \$22.2 million for capital expenditures and approximately \$70.2 million for integration expenses. Of this \$70.2 million, \$32.6 million was recognized as a one-time restructuring charge in the fourth quarter of 1997. The balance will be recognized as incurred over the three-year life of the program, including \$7.0 million recorded in the fourth quarter of 1997. The Company's program includes facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training, and support for the service and repair operations. The integration program is expected to result in a net reduction of approximately 300 employees at a cost of \$22.4 million with an additional 150 employee reduction due to the divestiture of Metal Fab. In addition, exit costs associated with the facilities closings are estimated at \$10.2 million. The integration program is expected to be funded through operating cash flows and available credit facilities. Through December 31, 1997, severance costs of \$3.4 million and exit costs of \$1.7 million were paid. The remainder of the costs are expected to be incurred over the life of the program.

(Dollar amounts in millions)	Severance	Other Exit Costs	Total
Balance at October 27, 1997	\$ 22.4	\$ 10.2	\$ 32.6
Cash expenditures	(3.4)	(.5)	(3.9)
Non-cash expenditures	--	(1.2)	(1.2)
Balance at December 31, 1997	\$ 19.0	\$ 8.5	\$ 27.5

The Company believes the program will produce \$45-\$55 million annually in operating income at the end of three years. This income is expected to be produced by eliminating cost redundancies, capturing procurement savings, and realizing earnings increases from sales synergies.

In addition to the restructuring charge and the integration expenses incurred in the fourth quarter of 1997, Flowserve also incurred \$11.9 million relating to merger transaction costs. This amount was comprised of severance and other expenses triggered by the merger and investment banking, accounting, legal, and other costs required to effect the merger. Also in the fourth quarter of 1997, the Company sold substantially all the assets of its Metal Fab operation for a pretax gain of \$11.4 million. The gain relating to Metal Fab sale along with all the merger transaction, restructure and integration expenses comprised the "special items" the Company highlighted for ease in comparing 1997 to future and prior periods. In 1996, a \$5.8 million restructuring charge was recorded relating to the consolidation of certain operations in Europe and Asia. In 1995, a \$5.0 million charge was recorded for transaction costs relating to the merger between Durco and Durametallic.

#### FINANCIAL POSITION AND LIQUIDITY

(Dollar amounts in millions)	1997	1996	1995
Cash flows from operations	\$ 90.0	\$ 88.4	\$ 58.0
Capital expenditures	\$ 39.6	\$ 35.7	\$ 39.9
Total long-term debt	\$ 128.9	\$ 144.0	\$ 125.9
Debt to capital ratio	27.1%	30.0%	27.9%
Current ratio	2.2	2.5	2.3

Cash flows from operations and financing available under existing credit agreements are the Company's primary sources of short-term liquidity. Cash flows from operating activities in 1997 increased to \$90.0 million compared with \$88.4 million in 1996 and \$58.0 million in 1995. The slight increase in cash flows in 1997 was primarily due to increased earnings before non-cash portion of restructure reserve, offset somewhat by cash outlays related to the merger and increases in accounts receivable due to strong shipments at the end of 1997. The increase in cash flows from operations in 1996 over 1995 resulted primarily from increased earnings and enhanced inventory management.

Cash flows from operations were sufficient to fund capital expenditures of \$39.6 million, \$35.7 million, and \$39.9 million during 1997, 1996 and 1995, respectively. For each of the three years, capital expenditures were invested in

machinery and equipment, replacements and upgrades. In 1997, the amount increased over 1996 predominately due to investment in low-cost manufacturing facilities in India.

The Company's capital structure, consisting of long-term debt and shareholders' equity, continued to enable the Company to finance short- and long-range business objectives. At December 31, 1997, total debt was 27.1% of the Company's capital structure compared to 30.0% at December 31, 1996. The interest coverage ratio of the Company's indebtedness was 7.8 times interest at December 31, 1997, compared with 9.9 times interest at December 31, 1996.

The Company has a \$150,000 revolving credit agreement with the option to increase the availability to \$200,000. At December 31, 1997, \$50,000 was outstanding. The Company also had other short-term credit facilities with \$42.8 million available for borrowing thereunder.

The return on average net assets for 1997, before special items, was 13.7%, compared with 12.9% for 1996. Including the impact of special items, the return on average net assets was 9.0% for 1997, compared with 12.5% for 1996. The return on average shareholder equity, before special items, was 20.4% for 1997, compared with 19.3% for 1996. Return on average shareholders' equity including special items was 13.0% for 1997 versus 18.6% for 1996.

The Company will continue to allocate resources to activities consistent with its core business. Accordingly, in 1997 the Company acquired 100% of its joint venture in Argentina (previously 51% owned

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by the Company) and also acquired the engineered pump business of Stork Pompen. In addition, the sale of Metal Fab, which generated approximately \$18.8 million in cash and an \$11.4 million pretax gain, will allow resources formerly allocated to that operation to be used in activities more consistent with Flowserve's core business.

Flowserve believes that cash flow generated by operations and amounts available under borrowing arrangements will be adequate to fund normal operating needs, the integration plans, capital expenditures, required debt payments and dividends through the remainder of the year.

Inflation during the past three years had little impact on the Company's consolidated financial performance. Foreign currency translation effect did have a significant impact on the Company's financial performance in 1997 -- reducing bookings, sales, backlog and earnings each by approximately 4%.

#### YEAR 2000 COSTS

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could potentially result in a major system failure or miscalculations.

Flowserve has conducted a review of its computer systems to identify the systems that could be affected by the Year 2000 issue. To address this issue, the Company is developing a plan for a combined approach of upgrade to Year 2000 compliant systems and code modifications to existing systems. Flowserve continues to evaluate appropriate courses of corrective action, including replacement of certain systems. The Company estimates that such costs, to be charged to expense over the next two years, could be as much as \$7 million. Flowserve presently believes that, with modifications to existing software and conversions to new software, the Year 2000 issue will not pose a significant operational problem for the Company's computer systems so modified and converted. The Company is also developing a plan for the implementation of a

new corporate-wide computer system to provide significant operational benefits and cost savings to the Company. The cost of a new system, with preliminary estimates ranging from \$60 - \$80 million over three years, would generally be recorded as capitalized assets and amortized over the software's useful life. Costs to address the Year 2000 issue and for a new system would be funded through a combination of operating cash flows and funds available under borrowing arrangements.

#### ACCOUNTING PRONOUNCEMENTS

In 1997, the Company adopted Statement of Financial Accounting Standards No.128, "Earnings Per Share" (SFAS No.128), which established standards for computing and presenting earnings per share. SFAS 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement and requires a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation. The Company's potentially dilutive common stock equivalents were immaterial in 1997 and all previous years. Accordingly, diluted earnings per share is equal to basic earnings per share and is presented on the same line for income statement presentation.

In 1997, the Financial Accounting Standards Board also issued SFAS No. 130, "Reporting Comprehensive Income," SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," and SFAS No. 132, "Employers' Disclosure about Pensions and Other Post Retirement Benefits." All three standards are effective for years beginning after December 15, 1997. These standards modify or expand current disclosure requirements and, accordingly, are not expected to impact Flowserve's reported financial position, results of operations, or cash flows. The Company is assessing the impact of SFAS No. 131 on its reporting segments.

#### SAFE HARBOR STATEMENT

This document contains various forward-looking statements and includes assumptions about the Company's future market conditions, operations, and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies; political risks or trade embargoes affecting important country markets; foreign currency fluctuations; continued economic turmoil in Asian markets; and prolonged periods where the price of oil is below historical levels. Net earnings for future periods are uncertain and dependent on general worldwide economic conditions in the Company's major markets and their strong impact on the level of incoming business activity.

#### FIVE YEAR SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data and ratios)	December 31				
	1997	1996	1995	1994	1993
RESULTS OF OPERATIONS					
Net sales	\$ 1,152,196	\$ 1,097,645	\$ 983,917	\$ 909,226	\$ 849,030
Cost of sales	703,319	668,718	591,550	554,707	508,936
Gross profit	448,877	428,927	392,367	354,519	340,094
Selling and administrative expense	285,890	283,360	264,426	241,131	221,556
Research, engineering and development expense	26,893	24,522	24,649	24,528	25,172
Merger transaction and restructuring expenses	44,531	5,778	5,042	--	22,728
Merger integration expense	6,982	--	--	--	--

Operating income	84,581	115,267	98,250	88,860	70,638
Interest expense	13,275	12,144	12,293	12,214	10,643
Other income	(7,107)	(5,228)	(2,455)	(4,187)	(2,425)
Gain on sale of subsidiary	(11,376)	--	--	--	--
Earnings before income taxes	89,789	108,351	88,412	80,833	62,420
Provision for income taxes	38,223	37,254	34,391	29,601	22,875
Earnings from continuing operations	51,566	71,097	54,021	51,232	39,545
Loss on discontinued operation	--	--	--	--	16,447
Cumulative effect of change in accounting principle	--	--	--	--	945
Net earnings	\$ 51,566	\$ 71,097	\$ 54,021	\$ 51,232	\$ 22,153
Average shares outstanding (diluted and basic)	40,896	41,363	41,652	41,626	41,624
Net earnings per share (diluted and basic)	\$ 1.26	\$ 1.72	\$ 1.30	\$ 1.23	\$ 0.53
Dividends paid per share	\$ 0.65	\$ 0.57	\$ 0.51	\$ 0.45	\$ 0.39
Bookings	\$ 1,172,431	\$ 1,141,614	\$ 1,013,861	\$ 930,863	\$ 820,110
Ending backlog	\$ 291,568	\$ 287,076	\$ 249,562	\$ 237,598	\$ 234,852
PERFORMANCE RATIOS (AS A PERCENT OF NET SALES)					
Cost of sales	61.0%	60.9%	60.1%	61.0%	59.9%
Gross profit margin	39.0%	39.1%	39.9%	39.0%	40.1%
Selling and administrative expense	24.8%	25.8%	26.9%	26.5%	26.1%
Research, engineering and development expense	2.3%	2.2%	2.5%	2.7%	3.0%
Earnings before income taxes	7.8%	9.9%	9.0%	8.9%	7.4%
Net earnings	4.5%	6.5%	5.5%	5.6%	2.6%
FINANCIAL CONDITION					
Cash and cash equivalents	\$ 58,602	\$ 38,933	\$ 28,596	\$ 28,777	\$ 33,924
Working capital	\$ 284,220	\$ 279,972	\$ 251,774	\$ 222,798	\$ 231,682
Net property, plant and equipment	\$ 209,509	\$ 211,738	\$ 209,974	\$ 197,844	\$ 186,005
Intangibles and other assets	\$ 155,852	\$ 149,003	\$ 139,204	\$ 113,824	\$ 81,398
Total assets	\$ 880,025	\$ 829,776	\$ 801,120	\$ 712,160	\$ 655,796
Capital expenditures	\$ 39,560	\$ 35,691	\$ 39,928	\$ 26,506	\$ 28,444
Depreciation and amortization	\$ 38,933	\$ 36,665	\$ 34,451	\$ 34,054	\$ 27,814
Long-term debt	\$ 128,936	\$ 143,962	\$ 125,931	\$ 95,971	\$ 89,756
Postretirement benefits and deferred items	\$ 125,372	\$ 108,127	\$ 99,775	\$ 98,228	\$ 101,086
Shareholders' equity	\$ 395,273	\$ 388,624	\$ 375,246	\$ 340,267	\$ 308,243
FINANCIAL RATIOS					
Return on average shareholders' equity	13.0%	18.6%	15.1%	15.8%	7.2%
Return on average net assets	9.0%	12.5%	10.4%	11.2%	5.8%
Debt to capital ratio	27.1%	30.0%	27.9%	25.9%	26.4%
Current ratio	2.2	2.5	2.3	2.3	2.4
Interest coverage ratio	7.8	9.9	8.2	7.6	6.9
Cash dividends paid as a percent of ending shareholders' equity	6.6%	6.0%	5.6%	5.5%	5.4%

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CONSOLIDATED STATEMENTS OF INCOME

	For the year ended December 31		
(Amounts in thousands, except per share data)	1997	1996	1995
Net sales	\$ 1,152,196	\$ 1,097,645	\$ 983,917
Cost of sales	703,319	668,718	591,550
Gross profit	448,877	428,927	392,367
Selling and administrative expense	285,890	283,360	264,426
Research, engineering and development expense	26,893	24,522	24,649
Merger transaction and restructuring expenses	44,531	5,778	5,042
Merger integration expense	6,982	--	--
Operating income	84,581	115,267	98,250
Interest expense	13,275	12,144	12,293
Other income	(7,107)	(5,228)	(2,455)
Gain on sale of subsidiary	(11,376)	--	--
Earnings before income taxes	89,789	108,351	88,412
Provision for income taxes	38,223	37,254	34,391
Net earnings	\$ 51,566	\$ 71,097	\$ 54,021
Earnings per share (diluted and basic)	\$ 1.26	\$ 1.72	\$ 1.30
Average shares outstanding	40,896	41,363	41,652

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

	December 31	
(Amounts in thousands, except per share data)	1997	1996
-----		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,602	\$ 38,933
Accounts receivable, net	234,437	223,274
Inventories	184,944	182,423
Prepays and other current assets	36,681	24,405
	-----	-----
Total current assets	514,664	469,035
Property, plant and equipment, net	209,509	211,738
Intangible assets, net	79,748	87,884
Other assets	76,104	61,119
	-----	-----
Total assets	\$ 880,025	\$ 829,776
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 68,241	\$ 68,011
Notes payable	5,644	5,784
Income taxes	15,548	4,961
Accrued liabilities	128,802	93,695
Long-term debt due within one year	12,209	16,612
	-----	-----
Total current liabilities	230,444	189,063
Long-term debt due after one year	128,936	143,962
Postretirement benefits and deferred items	125,372	108,127
Shareholders' equity:		
Serial preferred stock, \$1.00 par value, no shares issued	--	--
Common stock, \$1.25 par value, 41,484 and 41,482 shares issued and outstanding at December 31, 1997 and 1996, respectively	51,856	51,854
Capital in excess of par value	70,895	72,628
Retained earnings	326,681	298,563
	-----	-----
Treasury stock at cost, 881 shares in 1997, 1,081 shares in 1996	449,432	423,045
Foreign currency and other equity adjustments	(23,145)	(27,455)
	(31,014)	(6,966)
	-----	-----
Total shareholders' equity	395,273	388,624
	-----	-----
Total liabilities and shareholders equity	\$ 880,025	\$ 829,776
	=====	=====

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands, except share and per share data)	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Foreign currency and other equity adjustments	Total shareholders' equity
-----						
Balance at December 31, 1994	\$ 51,571	\$ 69,828	\$ 217,934	\$ (59)	\$ 993	\$ 340,267
Net earnings	--	--	54,021	--	--	54,021
Cash dividends declared (\$.51 per share)	--	--	(21,168)	--	--	(21,168)
Retirement of common stock	(6)	(14)	(21)	--	--	(41)
Stock activity under stock plans	85	459	(4)	--	117	657
Foreign currency translation adjustment	--	--	--	--	1,600	1,600
Nonqualified pension plan adjustment	--	--	--	--	61	61
Net treasury stock activity (4,700)	--	--	--	(151)	--	(151)
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	\$ 51,650	\$ 70,273	\$ 250,762	\$ (210)	\$ 2,771	\$ 375,246
Net earnings	--	--	71,097	--	--	71,097



Cash dividends declared (\$.57 per share)	--	--	(23,296)	--	--	(23,296)
Stock activity under stock plans	204	2,355	--	--	(590)	1,969
Foreign currency translation adjustment	--	--	--	--	(8,918)	(8,918)
Nonqualified pension plan adjustment	--	--	--	--	(229)	(229)
Net treasury stock activity (1,073,000)	--	--	--	(27,245)	--	(27,245)
-----						
Balance at December 31, 1996	\$ 51,854	\$ 72,628	\$ 298,563	\$ (27,455)	\$ (6,966)	\$ 388,624
Net earnings	--	--	51,566	--	--	51,566
Cash dividends declared (\$.58 per share)	--	--	(23,451)	--	--	(23,451)
Stock activity under stock plans	2	(1,733)	3	4,310	(46)	2,536
Foreign currency translation adjustment	--	--	--	--	(24,002)	(24,002)
-----						
Balance at December 31, 1997	\$ 51,856	\$ 70,895	\$ 326,681	\$ (23,145)	\$ (31,014)	\$ 395,273
=====						

See accompanying notes to consolidated financial statements.

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# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	For the year ended December 31		
	1997	1996	1995
-----			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Operating activities:			
Net earnings	\$ 51,566	\$ 71,097	\$ 54,021
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	35,277	33,452	29,803
Amortization	3,656	3,213	4,648
Gain on sale of subsidiary, net of income taxes	(7,417)	--	--
Loss on the sale of fixed assets	33	551	193
Change in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(18,401)	(8,645)	(11,741)
Inventories	(9,943)	(1,565)	(30,532)
Prepaid expenses	(10,287)	(1,014)	(2,184)
Other current assets	(13,232)	103	(332)
Accounts payable	1,574	(7,239)	9,524
Accrued liabilities	48,806	(5,677)	7,776
Income taxes	(2,005)	147	2,031
Postretirement benefits and deferred items	13,195	5,855	(200)
Net deferred taxes	(1,477)	1,901	(1,932)
Other	(1,342)	(3,824)	(3,041)
-----			
Net cash flows from operating activities	90,003	88,355	58,034
-----			
Investing activities:			
Capital expenditures	(39,560)	(35,691)	(39,928)
Payments for acquisitions, net of cash acquired	(10,461)	(13,240)	(21,523)
Proceeds from sale of subsidiary	18,793	--	--
Other	1,777	(258)	1,618
-----			
Net cash flows used by investing activities	(29,451)	(49,189)	(59,833)
-----			
Financing activities:			
Net repayments under lines of credit	576	(12,720)	27,277
Payments on long-term debt	(15,760)	(71)	(14,521)
Proceeds from long-term debt	929	36,296	12,061
Repurchase of common stock	--	(27,838)	(41)
Proceeds from issuance of common stock	2,584	2,333	567
Dividends paid	(26,121)	(23,296)	(20,926)
Other	--	134	(2,963)
-----			
Net cash flows (used by) from financing activities	(37,792)	(25,162)	1,454
-----			
Effect of exchange rate changes	(3,091)	(3,667)	164
-----			
Net change in cash and cash equivalents	19,669	10,337	(181)
Cash and cash equivalents at beginning of year	38,933	28,596	28,777
-----			
Cash and cash equivalents at end of year	\$ 58,602	\$ 38,933	\$ 28,596
=====			

Taxes paid	\$ 27,636	\$ 31,493	\$ 28,084
Interest paid	\$ 13,420	\$ 12,269	\$ 13,039

See accompanying notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data.)

### NOTE 1

#### SIGNIFICANT ACCOUNTING POLICIES

##### PRINCIPLES OF CONSOLIDATION

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

##### BUSINESS COMBINATIONS

Business combinations which have been accounted for under the pooling of interests method of accounting combine the assets, liabilities, and stockholders' equity of the acquired entity with the Company's respective accounts at recorded values. Prior period financial statements have been restated to give effect to the transactions as if they occurred at the beginning of all periods presented.

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

##### CASH EQUIVALENTS

Cash equivalents represent short-term investments with an original maturity of three months or less when purchased which are highly liquid with principal values not subject to significant risk of change due to interest rate fluctuations.

##### ACCOUNTS RECEIVABLE

Accounts receivable are stated net of the allowance for doubtful accounts of \$5,059 and \$4,826 at December 31, 1997 and 1996, respectively.

##### INVENTORIES

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

##### FINANCIAL INSTRUMENTS

Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses related to hedges of anticipated transactions are recognized in income as the transactions occur.

The carrying amounts in the Company's financial instruments approximate fair value as defined under Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures About Fair Value of Financial Instruments." Fair value is estimated by reference to quoted prices by financial institutions.

#### 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 as follows:

Buildings, improvements, furniture and fixtures	5 to 35 years
Machinery and equipment	3 to 12 years
Capital leases	5 to 25 years

#### INTANGIBLES

Excess cost over the fair value of net assets acquired (goodwill) generally is amortized on a straight-line basis over 15-40 years. The carrying value of goodwill will be reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as

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determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill will be adjusted accordingly. Intangibles are stated net of accumulated amortization of \$5,266 and \$5,079 as of December 31, 1997 and 1996, respectively.

#### HEDGING/FORWARD CONTRACTS

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. No foreign exchange or financial derivative product above \$5,000 can be entered into without executive management's approval. Gains and losses on forward contracts qualifying as hedges are deferred and included in the measurement of the related foreign currency transaction. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it expects all counterparties to meet their obligations given their high credit ratings. As of December 31, 1997, the Company had no significant outstanding hedges or forward contracts with third parties.

#### FOREIGN CURRENCY TRANSLATION

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

#### REVENUE RECOGNITION

Revenues and costs are generally recognized as units are shipped. 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.

#### STOCK-BASED COMPENSATION

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its employee stock options. Under APB No. 25, no compensation expense is recorded if the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant. Accordingly, the Company has no compensation expense recorded. Note 4 reflects the estimated impact on earnings per share as if the Company had used the fair value accounting as provided under SFAS No. 123, "Accounting for Stock Based Compensation."

#### USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### CONCENTRATION OF CREDIT RISK

The Company places its temporary cash investments with financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Credit risk is also limited due to the large number of customers comprising the Company's customer base, the Company's diverse product line and the dispersion of the Company's customers across many different geographic regions. As of December 31, 1997, the Company does not believe that it had significant concentrations of credit risk.

#### BASIS OF COMPARISON

Certain amounts in 1996 and 1995 have been reclassified or restated to conform with the 1997 presentation.

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#### NOTE 2

##### MERGER

On July 22, 1997, shareholders of Durco International Inc. (Durco) and BW/IP, Inc. (BW/IP) voted to approve a merger between Durco and BW/IP in a stock-for-stock merger of equals that was accounted for as a pooling of interests transaction (the "merger"). As part of the merger agreement, the Company changed its name from Durco to Flowserve Corporation. The Company issued approximately 16,914,000 shares of common stock in connection with the merger. BW/IP shareholders received .6968 shares of the Company's common stock for each previously owned share of BW/IP stock.

The consolidated financial statements, including the accompanying notes thereto, have been restated for all periods prior to the merger to include the financial position, results of operations, and cash flows of BW/IP and Durco as if the merger had occurred at the beginning of all periods presented.

In connection with the merger, the Company recorded a one-time charge of \$11,900 for merger-related expenses in 1997. These expenses included severance and other expenses triggered by the merger and investment banking fees, legal fees, and other costs related to the merger, which are primarily non-deductible for tax purposes.

In the fourth quarter, the Company announced its merger integration program.

This \$92,400 program includes investments of approximately \$22,200 for capital expenditures and approximately \$70,200 for integration expenses. Of this \$70,200, \$32,600 was recognized as a one-time restructuring charge in the fourth quarter of 1997, \$7,000 was recognized as an integration expense in the fourth quarter of 1997, and the balance will be recognized as incurred over the three-year life of the program. The program includes facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training, and support for the service and repair operations. The integration program is expected to result in a net reduction of approximately 300 employees at the cost of \$22,400. In addition, exit costs associated with the facilities closings are estimated at \$10,200. Through December 31, 1997, the Company paid \$3,400 for severance of approximately 50 employees and \$1,700 for other exit costs.

	Severance	Other Exit Costs	Total
Balance at October 27, 1997	\$ 22,400	\$ 10,200	\$ 32,600
Cash expenditures	(3,400)	(500)	(3,900)
Non cash expenditures	--	(1,200)	(1,200)
Balance at December 31, 1997	\$ 19,000	\$ 8,500	\$ 27,500

Net sales and net earnings for Durco and BW/IP stated individually for prior periods were as follows:

	Six Months Ended June 30, 1997 (unaudited)	Years ended December 31 1996	1995
Net sales			
BW/IP	\$ 252,701	\$ 492,191	\$ 451,191
Durco	310,468	605,454	532,726
Consolidated net sales	\$ 563,169	\$1,097,645	\$ 983,917
Net earnings			
BW/IP	\$ 15,062	\$ 27,846	\$ 23,349
Durco	26,618	43,251	30,672
Consolidated net earnings	\$ 41,680	\$ 71,097	\$ 54,021

#### ACQUISITIONS AND DISPOSITIONS

In 1997, the Company purchased the 49% remaining shares of its joint venture in Argentina, Byron Jackson Argentina I.C.S.A. and purchased the engineered pump business of Stork Pompen, B.V. In 1996, the Company acquired certain assets and liabilities of Anchor/Darling Valves. In 1995, the Company purchased Pac-Seal

and two affiliated companies and certain product lines of Wilson-Snyder. These acquisitions did not have a significant impact on the Company's consolidated financial position or results of operations. In 1995, the Company exchanged approximately 5,345,000 shares of common stock for all outstanding shares of Durametallic. The merger was accounted for under the pooling of interests method of accounting.

In 1997, the Company sold its wholly owned subsidiary Metal Fab Machine Corporation ("Metal Fab") for \$18,793 resulting in a pretax gain of \$11,376. Metal Fab had approximately 150 employees. In addition, in 1997, the Company sold its Filtration Systems Division ("FSD"). The sale of FSD did not have a significant impact on the Company's consolidated financial position or results of operations.

#### Note 4

#### STOCK PLANS

The Company maintains a shareholder approved stock option plan, which provides for the grant of 1,500,000 options to purchase shares of the Company's common stock. At December 31, 1997, approximately 1,233,000 options remain available for grant. Options have been granted to officers and employees to purchase shares of common stock at a price not less than the fair market value at the date of grant. Generally, these options, whether granted from the current or prior plans, become exercisable over staggered periods, but may not be exercised after 10 years from the date of the grant. The plan provides that any option may include a stock appreciation right, however, none have been granted since 1989. The aggregate number of shares exercisable was 1,707,677 at December 31, 1997, 915,509 at December 31, 1996 and 741,490 at December 31, 1995.

	Stock options	Option price per share	
		Average (\$)	Range(\$)
-----	-----	-----	-----
Outstanding at December 31, 1994	1,126,186	17.61	5.95-39.20
Options granted	514,972	26.32	5.95-35.88
Options exercised	(72,863)	8.45	5.95-16.75
Options canceled	(10,176)	11.57	5.95-16.75
-----	-----	-----	-----
Outstanding at December 31, 1995	1,558,119	20.98	5.95-39.20
Options granted	433,591	24.85	22.97-30.14
Options exercised	(149,471)	9.37	5.95-16.75
-----	-----	-----	-----
Outstanding at December 31, 1996	1,842,239	22.83	5.95-39.20
Options granted	690,270	26.53	22.87-30.00
Options exercised	(285,952)	14.30	5.95-27.99
-----	-----	-----	-----
Outstanding at December 31, 1997	2,246,557	25.05	5.95-39.20
-----	-----	-----	-----

The weighted average contractual life of options outstanding is 8.1 years. Additional information relating to the ranges of options outstanding at December 31, 1997 is as follows:

Range of Exercise Prices Per Share	Weighted Average Remaining Contractual Life	Options Outstanding		Options Exercisable	
		Number Outstanding	Weighted Average Exercise Price Per Share	Number Exercisable at December 31, 1997	Weighted Average Exercise Price Per Share
-----	-----	-----	-----	-----	-----
\$ 5.95-\$14.92	3.30	150,136	\$ 12.10	140,736	\$ 11.91

\$15.00-\$24.88	7.74	956,856	\$ 21.23	956,856	\$ 21.24
\$25.65-\$39.20	8.03	1,139,565	\$ 29.96	610,085	\$ 30.86
		-----		-----	
		2,246,557		1,707,677	
		=====		=====	

Pro forma information regarding net earnings and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The "fair value" for these options at the date of grant was estimated using a binomial option pricing model (a modified Black-Scholes model). The range of assumptions used in this valuation:

For the year ended December 31	1997	1996	1995
-----			
Risk-free interest rate	5.5%	6.2%	6.2%
Dividend yield	2.0%	2.1%	2.1%
Stock volatility	35.5%	36.6%	36.6%
Average expected life	8.1 yrs.	6.7 yrs.	6.7 yrs.

The options granted had a weighted average "fair value" per share on date of grant of \$10.69 in 1997, \$10.42 in 1996, and \$10.68 in 1995. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting periods. The Company's pro forma information follows (in thousands except for per share information):

For the year ended December 31	1997	1996	1995
-----			
Net earnings			
As reported	\$ 51,566	\$ 71,097	\$ 54,021
Pro forma	48,224	69,156	53,101
Earnings per share (diluted and basic):			
As reported	\$ 1.26	\$ 1.72	\$ 1.30
Pro forma	1.18	1.67	1.27

Because the determination of the fair value of all options granted includes an expected volatility factor and, because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects for future years. The restricted stock plan approved by shareholders authorized the grant of up to 337,500 shares of the Company's common stock. In general, the shares cannot be transferred for a period of at least one but not more than ten years and are subject to forfeiture during the restriction period. The fair value of the shares is amortized to compensation expense over the periods in which the restrictions lapse. Restricted stock grants were 21,700 shares in 1997, 29,900 shares in 1996 and 4,100 shares in 1995. The weighted average fair value of the restricted stock grants at date of grant was \$27.73 in 1997, \$25.84 in 1996, and \$22.28 in 1995. Total compensation expense recognized in the income statement for all stock based awards was \$510 in 1997, \$584 in 1996, and \$193 in 1995.

Long-term debt, including capital lease obligations, at December 31 was as follows:

	1997	1996
-----		
Senior Notes, interest of 7.14% to 7.92%	\$ 66,667	\$ 55,000
Revolving credit agreement, interest at 7.04%	50,000	36,000
Loan, due annually through 2001, interest at 8.94%	14,438	19,836
Floating rate revolving notes	5,952	5,900
Credit agreements, average interest rate 6.0% in 1997 and 6.5% in 1996	678	34,678
Capital lease obligations and other	3,410	9,160
	-----	-----
	141,145	160,574
Less amounts due within one year	12,209	16,612
	-----	-----
Total long-term debt	\$128,936	\$143,962
	=====	=====

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Maturities of long-term debt, including capital lease obligations, for each of the five years subsequent to 1997, are as follows:

1998	\$ 12,209
1999	13,657
2000	6,985
2001	3,476
2002	4,387
Thereafter	100,431
	-----
	\$141,145
	=====

In 1997, the Company entered into a \$150,000 revolving credit agreement with the option to increase up to \$200,000. As of December 31, 1997, \$50,000 was outstanding. This facility will be used to provide for future capital needs and general corporate purposes.

The 8.94% loan is a U.S. dollar private placement which was effectively converted to a deutsche mark obligation through a currency swap agreement. The currency swap is a hedge of the net investment in a German subsidiary. Unrealized gains and losses on the hedge are not recognized in income, but are shown in the cumulative translation adjustment account included in shareholders' equity with the related amounts due to and from the counterparty included in long-term debt. The maturity and repayment terms of the swap match precisely the maturity and repayment term of the underlying debt. In addition, during 1996, the Company entered into swap agreements to fix an interest rate of 7.04% for 10 years on \$50,000 usage of the revolving credit.

In 1992, the Company issued \$50,000 Senior Notes requiring annual payments of \$8,333 through 1999, bearing interest of 7.92%, of which \$16,667 was outstanding at December 31, 1997. In 1996, the Company issued \$30,000 Senior Notes requiring annual principal payments of \$6,000 commencing in 2002 bearing interest of 7.14%. In 1997, the Company issued \$20,000 in Senior Notes, bearing interest of



7.17% with principal payments of \$4,000 due annually, commencing in 2003.

The provisions of the credit agreements require the Company to meet or exceed specified financial covenants that are defined in the agreements. The agreements also contain limitations or restrictions relating to new indebtedness and liens, disposition of assets, and payment of dividends or other distributions. Under the covenants, approximately \$80,611 of consolidated retained earnings were unrestricted for the payment of dividends at December 31, 1997. All such covenants were met in each of the years presented. The most restrictive of these include a debt to capital ratio and a minimum tangible net worth requirement.

At December 31, 1997 and 1996, the Company had short-term credit facilities available from banks under which it could borrow, at local market rates, up to \$61,521 and \$59,641, respectively. Under these facilities, the Company had borrowings outstanding of \$5,644 at December 31, 1997 and \$5,784 at December 31, 1996. The weighted average interest rate on these borrowings at December 31, 1997 and 1996 was 4.8% and 4.3%, respectively. In both years, these borrowings were used primarily to support the operations of foreign subsidiaries.

As of December 31, 1997, the Company had \$12,993 of contingent obligations relating to bank guarantees and performance bonds outstanding.

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#### OPERATING LEASES

The Company has non-cancelable 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 \$15,000 in 1997, \$15,100 in 1996 and \$13,200 in 1995.

The future minimum lease payments under non-cancelable operating leases as of December 31, 1997, were as follows:

1998	\$ 12,013
1999	8,673
2000	6,342
2001	5,219
2002	2,223
Thereafter	8,499
	-----
	\$ 42,969
	=====

#### NOTE 6

##### INCOME TAXES

Income taxes attributable to continuing operations were provided as follows:

For the year ended December 31	1997	1996	1995
-----			
Current:			
United States federal	\$ 30,461	\$ 15,009	\$ 16,448
Non-United States	17,752	15,643	13,157
State and local	5,485	4,127	3,129
	-----	-----	-----
Total current	53,698	34,779	32,734

Deferred:			
United States federal	(15,585)	3,446	(578)
Non-United States	1,012	(895)	1,821
State and local	(902)	(76)	414
Total deferred	(15,475)	2,475	1,657
	\$ 38,223	\$ 37,254	\$ 34,391

Reconciliation of the effective income tax rate with the statutory federal income tax rate is as follows:

For the year ended December 31	1997	1996	1995
United States federal income tax rate	35.0%	35.0%	35.0%
Non-United States tax rate differential and utilization of operating loss carryforwards	2.2	(0.5)	1.8
Merger transaction expenses	3.7	--	1.3
State and local income taxes, net of federal income tax benefit	3.2	2.4	2.9
Utilization of tax credits	(2.7)	(1.4)	(2.7)
Other net	1.2	(1.1)	0.6
Effective tax rate	42.6%	34.4%	38.9%

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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 at December 31 were as follows:

	1997	1996
Deferred tax assets related to:		
Postretirement benefits	\$ 24,824	\$ 25,020
Compensation accruals	9,849	7,286
Restructuring charge	9,413	188
Net operating loss carryforwards	7,370	4,398
Warranty and accrued liabilities	4,666	3,959
Loss on dispositions	2,437	2,461
Inventories	1,278	526
Capital loss carryforwards	--	1,263
Other	6,749	9,123
Total deferred tax assets	66,586	54,224
Less valuation allowances	9,007	8,354
Net deferred tax assets	57,579	45,870
Deferred tax liabilities related to:		
Property, plant and equipment	13,511	14,822
Goodwill	5,071	5,894
Pension benefits	2,444	2,426

Other	3,692	3,904
	-----	-----
Total deferred tax liabilities	24,718	27,046
	-----	-----
Deferred tax assets, net	\$ 32,861	\$ 18,824
	=====	=====

The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets which may not be realized due to the expiration of net operating loss, foreign tax credit and capital loss carryforwards. Changes in the valuation allowances were as follows:

	Net operating losses and other	Foreign tax credits	Capital losses
	-----	-----	-----
Balance at December 31, 1996	\$ 6,142	\$ 949	\$ 1,263
Utilization of carryforwards	(1,799)	--	(1,263)
Increase in expected nonutilization	4,153	45	--
Expiration of carryforwards	(103)	(380)	--
	-----	-----	-----
Balance at December 31, 1997	\$ 8,393	\$ 614	\$ --
	=====	=====	=====

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Earnings before income taxes was comprised as follows:

For the year ended December 31	1997	1996	1995
	-----	-----	-----
United States	\$ 48,897	\$ 63,238	\$ 51,828
Non-United States	40,892	45,113	36,584
	-----	-----	-----
	\$ 89,789	\$108,351	\$ 88,412
	=====	=====	=====

Undistributed earnings of the Company's non-United States subsidiaries amounted to approximately \$145,000 at December 31, 1997. 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 7

#### SHAREHOLDERS' EQUITY

In 1997 the Company increased its authorized \$1.25 par value common stock from 60,000,000 to 120,000,000 shares. The authorized shares were increased in connection with the merger of Durco and BW/IP resulting in the formation of Flowserve Corporation. At both December 31, 1997 and 1996, the Company had authorized 1,000,000 shares of \$1.00 par value preferred stock.

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, in general, become exercisable and trade separately in the event of certain significant changes in common stock ownership or on the commencement of certain tender offers which in either case, may lead to a change of control of the Company. Upon becoming exercisable, the rights provide shareholders the opportunity to acquire a new series of Company preferred stock to be then automatically issued at a pre-established price. In the event of certain forms of acquisition of the Company, the rights also provide Company shareholders the opportunity to purchase shares of the acquiring company's common stock from the acquirer at a 50% discount from the current market value. The rights are redeemable for \$.022 per right by the Company at any time prior to becoming exercisable and will expire in August, 2006.

At December 31, 1997, approximately 3,643,000 shares of common stock were reserved for exercise of stock options and for grants of restricted stock.

#### NOTE 8

##### RETIREMENT BENEFITS

The Company sponsors several noncontributory defined benefit pension plans, covering approximately 60% of domestic employees, which provide benefits based on years of service and compensation. Retirement benefits for all other employees are provided through defined contribution 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.

Net defined benefit pension expense was comprised as follows:

For the year ended December 31	1997	1996	1995
Service cost-benefits earned during the period	\$ 5,627	\$ 5,481	\$ 4,427
Interest cost on projected benefit obligations	13,931	13,179	12,516
Actual gain on plan assets	(33,080)	(21,908)	(35,820)
Net amortization and deferral	16,945	6,460	20,427
Net defined benefit pension expense	\$ 3,423	\$ 3,212	\$ 1,550

The following table presents defined benefit pension plan funded status and amounts recognized in the Company's consolidated balance sheets at December 31:

	1997	1996
Actuarial present value of:		
Vested benefits	\$ 168,870	\$ 146,893
Nonvested benefits	11,788	10,914
Accumulated benefit obligations	180,658	157,807
Projected future compensation increases	30,220	25,413
Projected benefit obligations	210,878	183,220
Plan assets, at fair value	219,860	197,523

Plan assets in excess of projected benefit obligations	8,982	14,303
Unrecognized net transition asset	(1,735)	(2,231)
Unrecognized net gain	(10,047)	(15,935)
Unrecognized prior service benefit	2,932	4,444
Net pension asset	\$ 132	\$ 581
Discount rate	7.25%	7.5%-8.0%
Rate of increase in compensation levels	4.0%-8.0%	4.0%-8.0%
Long-term rate of return on assets	8.0%-10.0%	8.0%-10.0%

Plan assets include marketable equity securities, corporate and government debt securities, insurance company contracts and real estate. The long-term rate of return on assets ranged between 8.0% and 10.0% in 1995.

The Company sponsors several defined contribution pension 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 pension expense for the Company was \$7,733 in 1997, \$6,903 in 1996, and \$6,766 in 1995.

The Company also sponsors several defined benefit postretirement health care plans covering approximately 73% of future retirees and most current retirees in the United States. These medical and dental benefits are provided through insurance companies and health maintenance organizations, include participant contributions, deductibles, co-insurance provisions and other limitations, and are integrated with Medicare and other group plans. The plans are funded as insured benefits and health maintenance organization premiums are incurred.

Net postretirement benefit expense was comprised as follows:

For the year ended December 31	1997	1996	1995
Service cost - benefits earned during the period	\$ 916	\$ 843	\$ 833
Interest cost on accumulated postretirement benefit obligations	3,652	3,556	3,739
Net amortization and deferral	(2,012)	(1,613)	(1,550)
Net postretirement benefit expense	\$ 2,556	\$ 2,786	\$ 3,022

The following table presents postretirement benefit amounts recognized in the Company's consolidated balance sheet at December 31:

	1997	1996
Actuarial present value of accumulated postretirement benefit obligations:		
Retirees	\$27,060	\$27,449
Active employees eligible to retire	8,348	7,552
Active employees not eligible to retire	17,664	14,702
Total	53,072	49,703

Unrecognized prior service benefit	8,866	10,460
Unrecognized net gain	3,090	5,554
	-----	-----
Accrued postretirement benefits	\$65,028	\$65,717
	=====	=====
Discount rate	7.25%	7.5%-8.0%

The assumed ranges for the annual rates of increase in per capita costs for periods prior to Medicare were 7.5%-8.5% for 1997 with a gradual decrease to 6.0% for 2002 and future years and, for periods after Medicare, 7.5% for 1997 with a gradual decrease to 5.0% for 2000 and future years.

Increasing the assumed rate of increase in postretirement benefit costs by 1% in each year would increase net postretirement benefit expense by approximately \$307 and accumulated postretirement benefit obligations by \$4,046.

#### NOTE 9

#### CONTINGENCIES

As of December 31, 1997, the Company was involved as a "potentially responsible party" (PRP) at five former public waste disposal sites which 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 which 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) which seek to recover damages for alleged personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and 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 fiber during the use of this equipment.

The Company is also a defendant in several other products liability lawsuits which are insured, subject to the applicable deductibles, and certain other non-insured 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 non-insured litigation which is incidental to its business and which, in management's opinion, will be resolved without a material impact on the Company's financial statements.

Although none of the aforementioned gives rise to any additional liability that can now be reasonably estimated, the Company believes such costs will be

immaterial. The Company will continue to evaluate these contingent loss exposures and, if they develop, recognize expense as soon as such losses can be reasonably estimated.

#### NOTE 10

#### DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

#### INVENTORIES

Inventories at December 31 and the method of determining cost were as follows:

	1997	1996
Raw materials	\$ 18,082	\$ 16,813
Work in process and finished goods	216,377	210,856
Less: Progress billings	(10,903)	(7,207)
	223,556	220,462
LIFO reserve	38,612	38,039
Net inventory	\$ 184,944	\$ 182,423
Percent of inventory accounted for by LIFO	43%	42%
Percent of inventory accounted for by FIFO	57%	58%

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 were as follows:

	1997	1996
Land	\$ 18,703	\$ 19,298
Buildings, improvements, furniture and fixtures	151,004	151,233
Machinery, equipment, capital leases and construction in progress	291,559	284,518
Less: Accumulated depreciation	461,266 (251,757)	455,049 (243,311)
Net property, plant and equipment	\$ 209,509	\$ 211,738

#### OTHER ASSETS

Other assets at December 31 were as follows:

	1997	1996
Pension assets	\$ 8,695	\$ 7,832
Deferred tax assets	25,903	16,435
Deferred compensation funding	9,229	6,999
Investments in unconsolidated affiliates	3,844	5,100
Patents	4,431	5,155
Other	24,002	19,598
Total	\$76,104	\$61,119

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## ACCRUED LIABILITIES

Accrued liabilities at December 31 were as follows:

	1997	1996
Wages and other compensation	\$ 66,208	\$ 56,928
Accrued restructuring, current portion	18,048	2,024
Other	44,546	34,743
	-----	-----
	\$128,802	\$ 93,695
	=====	=====

## POSTRETIREMENT BENEFITS AND DEFERRED ITEMS

Postretirement benefits and deferred items at December 31 were as follows:

	1997	1996
Postretirement benefits	\$ 65,028	\$ 65,717
Deferred compensation	6,708	6,186
Deferred taxes	15,946	9,955
Other	37,690	26,269
	-----	-----
	\$125,372	\$108,127
	=====	=====

## NOTE 11

## FOREIGN CURRENCY TRANSLATION

The foreign currency translation equity adjustment at December 31 consists of the following:

	1997	1996	1995
Beginning of year	\$ (5,564)	\$ 3,354	\$ 1,754
Adjustment	(24,002)	(8,918)	1,600
	-----	-----	-----
End of year	\$ (29,566)	\$ (5,564)	\$ 3,354
	=====	=====	=====

## NOTE 12

## OPERATIONS IDENTIFIED BY GEOGRAPHIC AREA



The Company operates in predominately one business segment, flow management.

Revenues by geographic location exclude intercompany sales. Transfers between geographic areas are accounted for primarily at cost plus a profit margin. Operating income consists of revenues less certain costs and expenses. In determining operating income none of the following items have been added or deducted: interest expense, other income, gain on sale of subsidiary and income taxes. Identifiable assets are those assets of the Company that are identifiable with the operations in each geographic area.

No individual geographic segment within the below listed geographic segments represents 10% or more of the consolidated Company's revenues from sales to unaffiliated customers or its identifiable assets. The Other geographic segment includes Canada, Latin America and the Asia Pacific.

Export sales from the United States to foreign unaffiliated customers were \$146,704 in 1997, \$140,842 in 1996 and \$95,768 in 1995.

Financial information by geographic area is as follows:

For the year ended December 31	1997	1996	1995
-----			
Revenues:			
United States	\$ 691,337	\$ 654,581	\$ 592,481
Europe	261,289	257,889	239,185
Other	199,570	185,175	152,251
	-----		
Consolidated total	\$1,152,196	\$1,097,645	\$ 983,917
	=====		
Inter-geographic transfers (not included above):			
United States	\$ 70,825	\$ 67,331	\$ 59,400
Europe	19,315	21,007	24,036
Other	2,982	3,886	2,924
	-----		
Consolidated total	\$ 93,122	\$ 92,224	\$ 86,360
	=====		
Operating income:			
United States	\$ 51,349	\$ 71,982	\$ 57,119
Europe	9,033	19,211	22,686
Other	24,199	24,074	18,445
	-----		
Consolidated total	\$ 84,581	\$ 115,267	\$ 98,250
	=====		
Identifiable assets:			
United States	\$ 503,654	\$ 448,743	\$ 466,528
Europe	247,939	271,348	228,043
Other	128,432	109,685	106,549
	-----		
Consolidated total	\$ 880,025	\$ 829,776	\$ 801,120
	=====		

Foreign currency transaction gains included in earnings before tax were approximately \$1,121 in 1997, \$229 in 1996, and \$105 in 1995.

NOTE 13  
UNAUDITED QUARTERLY FINANCIAL DATA

1997

(dollars in thousands except per share data)	Net sales	Net earnings (diluted	Earnings per share and basic)
-----			
Quarter ended:			
March 31, 1997	\$ 262.5	\$ 16.8	\$ 0.41
June 30, 1997	300.5	24.8	0.61
September 30, 1997	282.0	7.1 (a)	0.17 (a)
December 31, 1997	307.2	2.9 (a)	0.07 (a)
	-----		
	\$1,152.2	\$ 51.6 (a)	\$ 1.26 (a)
	=====		

1996

(dollars in thousands except per share data)	Net sales	Net earnings (diluted	Earnings per share and basic)
-----			
Quarter ended:			
March 31, 1996	\$ 271.1	\$ 16.2	\$ 0.39
June 30, 1996	270.8	15.9 (b)	0.38 (b)
September 30, 1996	271.1	18.2	0.44
December 31, 1996	284.6	20.8	0.51
	-----		
	\$1,097.6	\$ 71.1 (b)	\$ 1.72 (b)
	=====		

(a) Net earnings in the third quarter of 1997 included restructuring and merger expenses of \$10.2 million before tax, or \$.25 per share after tax. Excluding merger expenses, third quarter net earnings were \$17.3 million or \$.42 per share. Net earnings in the fourth quarter of 1997 included merger related expenses and a gain on sale of subsidiary which together totalled \$30.0 million before tax, or \$.50 per share after tax. Excluding special items, fourth quarter net earnings were \$23.2 million, or \$.57 per share, and net earnings for the year ended December 31, 1997 were \$82.1 million, or \$2.01 per share. See Note 2 to Consolidated Financial Statements.

(b) Net earnings in the second quarter of 1996 included restructuring expenses of \$5.8 million before tax, or \$.07 per share after tax, related to consolidating certain operations in Europe and Australia. Excluding restructuring expenses, second quarter net earnings were \$18.9 million, or \$.45 per share, and net earnings for the year ended December 31, 1996 were \$74.1 million, or \$1.79 per share.

We have audited the accompanying consolidated balance sheets of Flowserve Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 did not audit the 1996 and 1995 financial statements of BW/IP, Inc., a wholly owned subsidiary, which statements reflect total assets constituting 49% of the related consolidated total as of December 31, 1996, and total revenues constituting 45% and 46% of the related totals for the years ended December 31, 1996 and 1995, respectively. Those statements were audited by other auditors whose report thereon dated January 28, 1997 has been furnished to us, and our opinion, insofar as it relates to data included for BW/IP, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flowserve Corporation and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP  
Dallas, Texas  
February 20, 1998

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

/s/ BERNARD G. RETHORE

Bernard G. Rethore  
Chairman and Chief Executive Officer

/s/ RENEE J. HORNBAKER

Renee J. Hornbaker  
Vice President and Chief  
Financial Officer

## MARKET INFORMATION

Flowserve Corporation has facilities in 28 countries and approximately 7,200 worldwide employees. Flowserve Corporation is one of the world's largest providers of industrial flow management equipment, systems and services. Flowserve Corporation is also the largest publicly traded company in the United States operating exclusively in the flow control management industry. The Company's shares of common stock are traded on the New York Stock Exchange under the symbol "FLS."

The Company's records show that at March 1, 1998 there were approximately 41,484,000 shares of Flowserve issued and outstanding. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 13,200 shareholders of its common stock.

During 1997, Durco declared a dividend of \$0.14 cents per share for the first two calendar quarters, and in 1996, paid a dividend of \$0.13 cents per share each calendar quarter.

During 1997, BW/IP declared a dividend of \$0.11 cents per share for the first two calendar quarters, and in 1996, paid a dividend of \$0.11 cents per share each calendar quarter.

During 1997, Flowserve declared a dividend of \$0.14 cents per share for the last two calendar quarters.

The Flowserve Board declared a dividend of \$0.14 cents per share on February 20, 1998, which will be paid on March 20, 1998 to stockholders of record on March 5, 1998.

### HISTORICAL PRICE RANGE OF DURCO COMMON STOCK

(Prices through July 22, 1997)	Sales Prices		Cash Dividends Declared
	High	Low	
1st Quarter	\$ 27.12	\$ 21.88	\$ 0.14
2nd Quarter	\$ 30.00	\$ 21.25	\$ 0.14
3rd Quarter (Through July 22, 1997)	\$ 35.50	\$ 28.81	

### HISTORICAL PRICE RANGE OF BW/IP COMMON STOCK

(Prices through July 22, 1997)	Sales Prices		Cash Dividends Declared
	High	Low	
1st Quarter	\$ 17.38	\$ 14.63	\$ 0.11
2nd Quarter	\$ 20.75	\$ 15.00	\$ 0.11
3rd Quarter (Through July 22, 1997)	\$ 23.88	\$ 20.25	

### HISTORICAL PRICE RANGE OF FLOWSERVE CORPORATION COMMON STOCK

(Prices from July 23, 1997)	Sales Prices		Cash Dividends Declared
	High	Low	
3rd Quarter (From July 23, 1997)	\$ 36.63	\$ 29.81	\$ 0.14
4th Quarter	\$ 30.56	\$ 26.38	\$ 0.14

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BOARD OF DIRECTORS

[PICTURE]

R. Elton White, Diane C. Harris, George T. Haymaker, Jr., Kevin E. Sheehan, Bernard G. Rethore, William M. Jordan, Michael F. Johnston, William C. Rusnack, Hugh K. Coble and James O. Rollans. Not pictured: Charles M. Rampacek

OFFICERS

[PICTURE]

Mark E. Vernon, Michael S. Dunn, George A. Shedlarski, Reid D. Wayman, Howard D. Wynn, Renee J. Hornbaker, Bernard G. Rethore, William M. Jordan, Ronald F. Shuff, Scott E. Messel, Rick L. Johnson, Cheryl D. McNeal and Charles F. Cargile. Not pictured: Rory E. MacDowell

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BOARD OF DIRECTORS

OFFICERS

BERNARD G. RETHORE(3)  
Chairman of the Board and  
Chief Executive Officer  
Flowserve Corporation

HUGH K. COBLE(1),(3)  
Retired  
Vice Chairman Emeritus  
Fluor Corporation

DIANE C. HARRIS(2)  
President  
Hypotenuse Enterprises, Inc.

GEORGE T. HAYMAKER, JR.(1)  
Chairman and  
Chief Executive Officer  
Kaiser Aluminum and  
Chemical Corporation

MICHAEL F. JOHNSTON(1)  
President  
North America Automotive Group  
Johnson Controls, Inc.

WILLIAM M. JORDAN  
President and  
Chief Operating Officer  
Flowserve Corporation

CHARLES M. RAMPACEK  
President and

BERNARD G. RETHORE  
Chairman of the Board and  
Chief Executive Officer

WILLIAM M. JORDAN  
President and  
Chief Operating Officer

RENEE J. HORNBAKER  
Vice President and  
Chief Financial Officer

RICK L. JOHNSON  
Vice President,  
Business Development

RORY E. MACDOWELL  
Vice President and  
Chief Information Officer

CHERYL D. MCNEAL  
Vice President,  
Human Resources

GEORGE A. SHEDLARSKI  
Vice President  
Division President  
Fluid Sealing Division

RONALD F. SHUFF  
Vice President,  
Secretary and

Chief Executive Officer  
Lyondell-Citgo Refining Company

JAMES O. ROLLANS (2)  
Senior Vice President and  
Chief Administrative Officer  
Fluor Corporation

WILLIAM C. RUSNACK (2), (3)  
Retired  
Former Senior Vice President  
Atlantic Richfield Company and  
President  
ARCO Products Company

KEVIN E. SHEEHAN (1), (3)  
General Partner  
CID Equity Partners

R. ELTON WHITE (2)  
Retiree  
Former President  
NCR Corporation

- (1) Compensation Committee
- (2) Audit and Finance Committee
- (3) Executive Committee

General Counsel

MARK E. VERNON  
Vice President  
Division President  
Flow Control Division

REID D. WAYMAN  
Vice President  
Division President  
Service Repair Division

HOWARD D. WYNN  
Vice President  
Division President  
Rotating Equipment Division

CHARLES F. CARGILE  
Corporate Controller and  
Chief Accounting Officer

SCOTT E. MESSEL  
Corporate Treasurer

MICHAEL S. DUNN  
Assistant Vice President and  
Director of Taxes

#### STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS  
222 W. Las Colinas Blvd., Suite 1500  
Irving, Texas 75039  
Telephone 972.443.6500  
Facsimile 972.443.6800

TRANSFER AGENT  
For stock and legal transfers, changes of  
address, non-receipt of dividends, lost stock  
certificates, elimination of duplicate mailings  
of stockholder information, or general  
inquiries about stock ownership, contact:  
National City Bank  
Corporate Trust Operations  
P.O. Box 92301  
Cleveland, Ohio 44193  
Telephone 800.622.6757

DIVIDEND REINVESTMENT SERVICE  
A dividend investment and stock purchase  
plan is available. For information, contact  
the Transfer Agent.

ANNUAL MEETING  
The annual meeting of stockholders  
will be held at 9:00 a.m. on Thursday,  
May 21, 1998, at the:  
Omni Mandalay Hotel  
221 E. Las Colinas Blvd.  
Irving, Texas 75039

STOCK EXCHANGE  
Flowserve Corporation common stock is

listed on the New York Stock Exchange  
under the symbol FLS.

#### FORMS 10-K AND 10-Q

A copy of the Annual Report on Form 10-K  
and quarterly reports on Form 10-Q, as  
filed with the Securities and Exchange  
Commission, can be downloaded from the  
company's Web site at [www.flowserve.com](http://www.flowserve.com)  
or are available without charge by writing to:  
Investor Relations  
Flowserve Corporation  
222 W. Las Colinas Blvd., Suite 1500  
Irving, Texas 75039

#### WORLD WIDE WEB SITE

Learn more about Flowserve Corporation  
and take advantage of our special investor  
Relations Web page at the following address:  
[www.flowserve.com](http://www.flowserve.com)

[FLOWSERVE LOGO]

Flowserve Corporation  
222 West Las Colinas Boulevard  
Suite 1500  
Irving, Texas 75039-5421

FLOWERVE CORPORATION  
LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
Byron Jackson Argentina I.C.S.A.	Argentina	100%
Durametallic Argentina S.A.	Argentina	100%
Durametallic Corporation Australia Pty. Ltd.	Australia	100%
Valtek Australia Pty. Ltd.	Australia	100%
BW/IP Pacific Dichtungstechnik Gesellschaft MbH	Austria	100%
BW/IP International (Barbados), Ltd.	Barbados	100%
BW/IP International S.A.	Belgium	100%
Durametallic Europe N.V.	Belgium	100%
Durco Europe Coordinator Center	Belgium	100%
S.A. Durco Europe N.V.	Belgium	100%
Durametallic do Brazil	Brazil	100%
BW/IP International Ltd.	Canada	100%
Durametallic Canada Inc.	Canada	100%
Duriron Canada Inc.	Canada	100%
Valtek Controls Ltd.	Canada	100%
Automax S.A.R.L.	France	100%
BW/IP International S.A.R.L.	France	100%
Durco France S.A.R.L.	France	100%
Sereg Vannes S.A.	France	100%
BW/IP International GmbH	Germany	100%
BW/IP Pacific Weitz Verwaltungs GmbH	Germany	100%
BW/IP Pacific Weitz GmbH & Co. KG	Germany	100%
Durametallic GmbH	Germany	100%
Durco GmbH	Germany	100%
Kammer Ventile GmbH	Germany	100%
Durco-Microfinish Private Limited	India	76%
Valtek International Private Limited	India	95%
Durametallic (India)		
Ltd.	India	40%
PT BW Mechanical Seals Indonesia	Indonesia	75%
Durco Ireland Ltd.	Ireland	100%
Automax S.r.l.	Italy	100%

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
BW/IP International S.r.l.	Italy	100%
Durco Italia S.r.l.	Italy	100%
Byron Jackson K.K.	Japan	100%
BW Mechanical Seals K.K.	Japan	100%
Ebara-ByronJackson K.K.	Japan	50%
Korea Seal Master Co., Ltd.	Korea	40%
Durametallic Malaysia Sdn. Bhd.	Malaysia	40%
BW Mechanical Seals (Malaysia) Sdn. Bhd.	Malaysia	70%
Duriron (Mauritius) Corporation	Mauritius	100%
Bombas y Refacciones Saimsa, S.A. de C.V.	Mexico	100%
Byron Jackson Co., S.A. de C.V.	Mexico	100%
Durametallic Mexicana S.A. de C.V.	Mexico	100%
BW/IP International B.V.	Netherlands	100%
BW/IP Services B.V.	Netherlands	100%
Durco B.V.	Netherlands	100%
Durametallic Pty. Ltd.	New Zealand	100%
BW Abahsain Seal Company Limited.	Saudi Arabia	60%
Arabian Seals Co. Ltd.	Saudi Arabia	60%
BW Mechanical Seals (S.E.A.) Pte. Ltd.	Singapore	100%
Durametallic Asia Pte. Ltd.	Singapore	51%
Durco Valtek Asia Pacific Pte. Ltd.	Singapore	100%
BW/IP International S.A.	Spain	100%
Durco Valtek S.A.	Spain	100%
BW/IP Pacific Weitz Dichtungstechnik AG	Switzerland	100%
Kammer Vannes S.A.	Switzerland	100%
BW/IP - Siam Co., Ltd.	Thailand	60%
Automax Ltd.	United Kingdom	100%
BW/IP International Limited	United Kingdom	100%
Durco Process Equipment Ltd.	United Kingdom	100%
Automax Inc.	U.S. - Ohio	100%
BW/IP International, Inc.	U.S. - Delaware	100%
BW/IP International (GP), Inc.	U.S. - California	100%
BW/IP International (IP), Inc.	U.S. - California	100%
BW/IP International of Texas L.L.P.	U.S. - Texas	100%
BW/IP New Mexico, Inc.	U.S. - New Mexico	100%



NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
Davco Equipment Inc.	U.S. - Ohio	100%
Durametallic Corporation	U.S. - Michigan	100%
Durametallic Australia Holding Company	U.S. - Michigan	100%
Durametallic Europe Holding Company	U.S. - Michigan	100%
Flowserve Holdings, Inc.	U.S. - Delaware	100%
Flowserve Management Company (Business Trust)	U.S. - Delaware	100%
Valtek Incorporated	U.S. - Utah	100%
Durametallic	Uruguay	100%
BW/IP de Venezuela S.A.	Venezuela	100%
Duriron Foreign Sales Corporation	Virgin Islands	100%

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Flowserve Corporation of our report dated February 20, 1998, included in the 1997 Annual Report to Shareholders of Flowserve Corporation.

We also consent to the incorporation by reference in the Registration Statements pertaining to the 1979 and 1989 Stock Option Plans, The Duriron Company, Inc. Savings and Thrift Plan and Valtek Incorporated Retirement Plan and Trust (Forms S-8 No. 2-66089, 33-28497 and 33-72372, respectively) of our reports dated February 20, 1998, with respect to the consolidated financial statements and schedules included or incorporated by reference herein.

Ernst & Young LLP  
Dallas, Texas  
March 27, 1998

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 2-66089, 33-28497 and 33-72372) of Flowserve Corporation of our report (relating to BW/IP, Inc. and its subsidiaries) dated January 28, 1997 appearing on page F-2 in this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

Los Angeles, California  
March 27, 1998

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