FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For Quarter Ended September 30, 2002 Commission File Number 1-13179

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

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

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

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

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

YES X NO

SHARES OF COMMON STOCK, $1.25 PAR VALUE, outstanding as of October 31, 2002	55,205,176

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLOWSERVE CORPORATION

(UNAUDITED)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2002	2001
Sales	$ 586,711	$ 469,605
Cost of sales	411,167	317,291
Gross profit	175,544	152,314
Selling, general and administrative expense	127,452	100,998
Integration expense	6,072	13,757
Restructuring expense	2,233	--
Operating income	39,787	37,559
Net interest expense	23,800	28,326
Other expense, net	848	119
Earnings before income taxes	15,139	9,114
Provision for income taxes	5,299	3,281
Net earnings before extraordinary item	9,840	5,833
Extraordinary item, net of income taxes	493	--
Net earnings	$ 9,347	$ 5,833
Net earnings per share (basic):		
Before extraordinary item	$ 0.18	$ 0.15
Extraordinary item, net of income taxes	0.01	--
Net earnings per share	$ 0.17	$ 0.15
Net earnings per share (diluted):		
Before extraordinary item	$ 0.18	$ 0.15
Extraordinary item, net of income taxes	0.01	--
Net earnings per share	$ 0.17	$ 0.15
Average shares outstanding - basic	55,149	38,205
Average shares outstanding - diluted	55,275	38,699

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

(Amounts in thousands)	Three Months Ended September 30, 2002	2001
Net earnings	$ 9,347	$ 5,833
Other comprehensive (expense) income:		
Foreign currency translation adjustments	(12,034)	32,822
Hedging activity, net of tax effects	(2,974)	(331)
Other comprehensive (expense) income	(15,008)	32,491
Comprehensive (loss) income	$ (5,661)	$ 38,324

See accompanying notes to consolidated financial statements.

(UNAUDITED)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)	Nine Months Ended September 30, 2002	2001
Sales	$ 1,626,490	$ 1,378,219
Cost of sales	1,126,885	932,653
Gross profit	499,605	445,566
Selling, general and administrative expense	349,627	304,674
Integration expense	8,077	49,840
Restructuring expense	2,877	--
Operating income	139,024	91,052
Net interest expense	69,512	91,497
Other expense (income), net	2,957	(281)
Earnings (loss) before income taxes	66,555	(164)
Provision (benefit) for income taxes	23,294	(59)
Net earnings (loss) before extraordinary items	43,261	(105)
Extraordinary items, net of income taxes	6,831	--
Net earnings (loss)	$ 36,430	$ (105)
Net earnings (loss) per share (basic):		
Before extraordinary items	$ 0.85	$ --
Extraordinary items, net of income taxes	0.13	--
Net earnings (loss) per share (basic)	$ 0.72	$ --
Net earnings (loss) per share (diluted):		
Before extraordinary items	$ 0.84	$ --
Extraordinary items, net of income taxes	0.13	--
Net earnings (loss) per share (diluted)	$ 0.71	$ --
Average shares outstanding -- basic	50,786	37,986
Average shares outstanding -- diluted	51,270	37,986

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Amounts in thousands)	Nine Months Ended September 30, 2002	2001
Net earnings (loss)	$ 36,430	$ (105)
Other comprehensive income (expense):		
Foreign currency translation adjustments	12,904	(20,618)
Cash flow hedging activity, net of tax effects:		
Cumulative effect of change in accounting for hedging transactions	--	840
Other hedging activity	(248)	(4,538)
Other comprehensive income (expense)	12,656	(24,316)
Comprehensive income (loss)	$ 49,086	$ (24,421)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	September 30, 2002 (UNAUDITED)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,830	$ 21,533
Accounts receivable, net	510,329	455,861
Inventories	485,762	347,591
Deferred tax assets	40,948	36,316
Prepaid expenses	36,739	36,838
Total current assets	1,106,608	898,139
Property, plant and equipment, net	475,247	362,388
Goodwill	775,058	515,175
Other intangible assets, net	183,264	131,079
Other assets	135,000	145,194
Total assets	$ 2,675,177	$ 2,051,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 205,164	$ 178,480
Income taxes	7,088	--
Accrued liabilities	226,893	193,768
Long-term debt due within one year	50,656	44,523
Total current liabilities	489,801	416,771
Long-term debt due after one year	1,137,528	996,222
Retirement benefits and other liabilities	292,925	227,963
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value, 1,000 shares authorized, no shares issued	--	--
Common stock, $1.25 par value Shares authorized - 120,000 Shares issued - 57,614 and 48,414	72,018	60,518
Capital in excess of par value	477,368	211,113
Retained earnings	392,428	355,998
	941,814	627,629
Treasury stock, at cost - 2,885 and 3,622 shares	(65,961)	(82,718)
Deferred compensation obligation	8,566	8,260
Accumulated other comprehensive loss	(129,496)	(142,152)
Total shareholders' equity	754,923	411,019
Total liabilities and shareholders' equity	$ 2,675,177	$ 2,051,975

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Nine Months Ended September 30, 2002	2001
CASH FLOWS -- OPERATING ACTIVITIES:		
Net earnings (loss)	$ 36,430	$ (105)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		

Depreciation	41,474	36,752
Amortization	6,410	18,962
Amortization of prepaid financing fees and discount	4,158	5,083
Write-off of unamortized prepaid financing fees	9,669	--
Other direct costs of long-term debt repayment	726	--
Net gain on the disposition of fixed assets	(1,160)	(436)
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	46,292	8,947
Inventories	(14,957)	(48,029)
Prepaid expenses	8,132	(2,067)
Other assets	(4,344)	(8,496)
Accounts payable	(22,544)	(17,459)
Accrued liabilities	(14,937)	(56,217)
Income taxes	7,521	(3,199)
Retirement benefits and other liabilities	2,716	(5,687)
Net deferred taxes	21,543	(684)
Net cash flows provided (used) by operating activities	127,129	(72,635)
CASH FLOWS -- INVESTING ACTIVITIES:		
Capital expenditures	(21,921)	(28,345)
Cash received for disposal of assets	4,362	8,453
Payments for acquisitions, net of cash acquired	(530,413)	--
Net cash flows used by investing activities	(547,972)	(19,892)
CASH FLOWS -- FINANCING ACTIVITIES:		
Net repayments under lines of credit	(70,000)	--
Proceeds from long-term debt	795,306	86,170
Payments of long-term debt	(583,923)	(17,141)
Payment of prepaid financing fees	(5,043)	--
Other direct costs of long-term debt repayment	(726)	--
Proceeds from issuance of common stock	275,925	--
Net proceeds from stock option activity	16,849	9,097
Other	(238)	--
Net cash flows provided by financing activities	428,150	78,126
Effect of exchange rate changes	3,990	(3,084)
Net change in cash and cash equivalents	11,297	(17,485)
Cash and cash equivalents at beginning of year	21,533	42,341
Cash and cash equivalents at end of period	$ 32,830	$ 24,856

See accompanying notes to consolidated financial statements.

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

1. ACCOUNTING POLICIES -- BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of September 30, 2002, and the related consolidated statements of operations and comprehensive income/(loss) for the three months and nine months ended September 30, 2002 and 2001, and the consolidated statements of cash flows for the nine months ended September 30, 2002 and 2001, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such consolidated financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 2001 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year. Certain amounts in 2001 have been reclassified to conform with the 2002 presentation.

2. RECENT ACCOUNTING DEVELOPMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

Generally, this pronouncement requires companies to recognize the fair value of liabilities for retiring their facilities at the point that legal obligations associated with their retirement are incurred, with an offsetting increase to the carrying value of the facility. The expense associated with the retirement becomes a component of a facility's depreciation, which is recognized over its useful life.

Although SFAS No. 143 becomes effective for the Company on January 1, 2003, the Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations due to limited abandonment and retirement obligations associated with its facilities.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The most significant impact of SFAS 145 is to eliminate the requirement that gains and losses from the extinguishment of debt be classified as an extraordinary item unless these items are infrequent and unusual in nature. SFAS 145 is effective for the Company on January 1, 2003. Upon adoption of SFAS 145, the Company will reclassify its previously reported extraordinary items, which relate to early extinguishment of debt, as a component of earnings before income taxes.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized initially at fair value when the liability is incurred. Under current accounting rules, costs to exit or dispose of an activity are generally recognized at the date that the exit or disposal plan has been committed to and communicated. SFAS No. 146 is effective for the Company on January 1, 2003 and will be applied on a prospective basis.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

On January 1, 2002, the Company adopted SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations be accounted for using the purchase method, under which an acquiring company allocates the purchase price to the identifiable assets and liabilities, and recognizes goodwill when the purchase price exceeds the fair value of such identifiable assets and liabilities. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The most significant changes made by SFAS No. 142 require the cessation of systematic amortization of goodwill and indefinite-lived intangible assets, and instead requires impairment testing at least on an annual basis. Additionally, the amortization period of intangible assets is no longer limited to forty years.

Upon implementation of SFAS 141 and 142, the Company reclassified acquired workforce intangible assets with a net carrying value of $18.5 million to goodwill as that asset does not meet the new criteria for recognition apart from goodwill. The Company also determined that $31.1 million in acquired trademark intangible assets have indefinite useful lives and is no longer amortizing these intangible assets.

Under SFAS 142, goodwill impairment is assessed at the reporting unit level annually and whenever events or circumstances indicate goodwill may be impaired. During the second quarter of 2002, the Company completed the required transitional goodwill and indefinite-lived intangible asset impairment tests and determined these assets were not impaired. Amortization of goodwill, workforce intangible assets reclassified to goodwill and trademark intangible assets with indefinite useful lives totaled $5.5 million and $15.0 million on a pretax basis for the three months ended September 30, 2001 and for the nine months ended September 30, 2001, respectively. Such amortization for the year ended December 31, 2001 was $19.7 million.

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

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Net income (loss):		
As reported	$ 5,833	$ (105)
Goodwill amortization	3,446	9,149
Workforce intangible asset amortization	435	1,306
Trademark intangible asset amortization	146	438
Adjusted net income	$ 9,860	$ 10,788
Net income (loss) per share (basic and diluted):		
As reported	$ 0.15	$ --
Goodwill amortization	0.09	0.24
Workforce intangible asset amortization	0.01	0.03
Trademark intangible asset amortization	--	0.01
Adjusted net income per share	$ 0.25	$ 0.28

The following tables provide information about acquired intangible assets:

	As of September 30, 2002		As of December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Engineering drawings	$ 90,620	$ (7,660)	$ 63,500	$ (4,267)
Distribution network	13,700	(1,736)	13,700	(1,051)
Software	5,900	(1,276)	5,900	(833)
Patents	22,750	(2,297)	2,690	(1,430)
Other (1)	8,529	(2,935)	27,610	(5,800)
	$ 141,499	$ (15,904)	$ 113,400	$ (13,381)
Unamortized intangible assets - Trademarks	$ 57,669		$ 31,060	

(1) Other amortized intangible assets at December 31, 2001 includes net acquired workforce intangible assets of $18,501 that were reclassified to goodwill upon the implementation of SFAS 141 and 142.

Amortization expense:

Actual for nine months ended September 30, 2002	$ 6,410
Estimated for three months ending December 31, 2002	$ 2,761
Estimated for year ending December 31, 2003	$ 11,044
Estimated for year ending December 31, 2004	$ 10,839
Estimated for year ending December 31, 2005	$ 9,841
Estimated for year ending December 31, 2006	$ 9,381
Estimated for year ending December 31, 2007	$ 9,346

As a result of the acquisition of Invensys plc's flow control division as more fully described in Note 5, the Company acquired an estimated $78.3 million of intangible assets. Of this amount, $26.6 million was assigned to registered trademarks that have an indefinite life and are not subject to amortization. The remaining $51.7 million of acquired intangible assets have a weighted average useful life of approximately nine years comprised of the following:

INTANGIBLE ASSETS	(MILLIONS) AMOUNT ACQUIRED	(YEARS) WEIGHTED AVERAGE LIFE
Engineering Drawings	$ 27.2	10
Patents	$ 20.1	11
Other	$ 4.4	3

The amounts assigned to the acquired intangible assets arising from the acquisition are subject to refinements for up to one year from the acquisition date based on the completion of final valuation studies.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2002 are as follows:

	Flowserve Pump	Flow Solutions	Flow Control	Other	Total
Balance as of December 31, 2001	$ 432,895	$ 21,929	$ 40,882	$ 19,469	$ 515,175
Reclassification of workforce intangible assets to goodwill	18,501	--	--	--	18,501
Acquisition (see Note 5)	--	--	230,044	--	230,044
Other reclassifications	9,704	4,784	5,915	(19,469)	934
Currency translation	603	1,959	7,842	--	10,404
Balance as of September 30, 2002	$ 461,703	$ 28,672	$ 284,683	$ --	$ 775,058

Other reclassifications include the allocation of previously unallocated goodwill to the Company's reporting units and other reclassifications from intangible assets in connection with the implementation of SFAS No. 142.

Effective July 1, 2002, the Company realigned its operating segments. Previously, the Flow Solutions Division included seal operations as well as pump and valve services. Under the new structure, pump services and valve services have been included in Flowserve Pump Division and Flow Control Division, respectively. Accordingly, goodwill associated with the pump service and valve service businesses of $39.3 million and $6.7 million, respectively, has been reclassified for all periods presented herein to conform to the new organization structure.

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

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

5. ACQUISITIONS

On May 2, 2002, the Company completed its acquisition of Invensys plc's flow control division (IFC) for an aggregate purchase price of $535 million (the IFC Acquisition), subject to adjustment pursuant to the terms of the purchase and sale agreement. IFC is a manufacturer of valves, actuators and associated flow control products, and provides the Company with a more balanced mix of revenue among pumps, valves, and seals and more diversified geographic and end markets. The Company financed the acquisition and associated transaction costs with a combination of bank financing, as more fully described in Note 6, and net proceeds of approximately $276 million received from the issuance of 9.2 million common shares in April 2002. The Company also used $40 million from the proceeds of the equity offering to reduce amounts outstanding under the Company's revolving credit facility.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market values at the date of acquisition. These allocations include $78.3 million for acquired intangible assets and $230 million recorded as goodwill (see footnote 3).

The purchase price allocation for the IFC Acquisition is preliminary and subject to refinements for up to one year from the acquisition date based on the completion of final valuation studies. The operating results of IFC have been included in the consolidated statement of operations from the date of acquisition.

The table below reflects unaudited pro forma results of the Company and IFC as if the acquisition had taken place at the beginning of 2002 and 2001, including estimated purchase accounting adjustments and financing costs. The pro forma information for the three months ended September 30, 2002 excludes the non-recurring $2.6 million purchase accounting adjustment associated with the required write up and subsequent sale of IFC inventory, which is assumed to have taken place in the first and second quarters of 2002. The effects of the $5.2 million non-recurring accounting adjustment for IFC inventory is included in the pro forma results for the nine months ended September 30, 2002 and 2001.

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Net sales	$ 586,711	$ 607,575
Net earnings before extraordinary items	11,562	17,102
Net earnings	11,069	17,102
Net earnings per share (basic):		
Before extraordinary items	$ 0.21	$ 0.36
Net earnings	0.20	0.36
Net earnings per share (diluted):		

Before extraordinary items	$ 0.21	$ 0.36
Net earnings	0.20	0.36

(Amounts in thousands, except per share data)	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Net sales	$ 1,783,827	$ 1,779,073
Net earnings before extraordinary items	51,657	22,929
Net earnings	44,826	22,929
Net earnings per share (basic):		
Before extraordinary items	$ 0.94	$ 0.49
Net earnings	0.82	0.49
Net earnings per share (diluted):		
Before extraordinary items	$ 0.93	$ 0.49
Net earnings	0.81	0.49

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

6. DEBT

SENIOR CREDIT FACILITIES

As of September 30, 2002, the Company's outstanding debt under its senior credit facilities consists of a revolving credit facility and Tranche A and Tranche C term loans, which were $0, $279.0 million and $650.5 million, respectively. The term loans require scheduled principal payments, which began on June 30, 2001 for the Tranche A loan and on September 30, 2002 for the Tranche C loan. In the third quarter of 2002, the Company made $18 million of mandatory and $70 million of non-mandatory principal repayments on the term loans.

During the second quarter of 2002, in connection with the IFC acquisition, the Company amended and restated its senior credit facilities, to provide for:

- an incremental Tranche A term loan in an aggregate principal amount of $95.3 million

- a new Tranche C term loan facility of $700 million, to be used to repay all of the existing Tranche B term loan facility of $468.8 million, repay $11.3 million of the existing Tranche A term loan, reduce the then outstanding balance on the revolving credit facility by $40 million, and provide funds to be used to finance the IFC acquisition.

As part of the amended and restated senior credit facility, several covenants were modified, including various financial ratios, primarily to allow for the IFC Acquisition. The senior credit facilities are collateralized by substantially all of the Company's domestic assets and a pledge of 65% of the stock of the foreign subsidiaries. As a result of repaying the Tranche B term loan facility during the second quarter of 2002, the Company recognized an extraordinary loss of $6.3 million, after tax consideration, for writing off deferred financing fees. As a result of $70 million of non-mandatory debt prepayments during the third quarter of 2002, deferred financing fees were written off and recognized as an extraordinary loss of $0.5 million, after tax consideration.

The scheduled principal payments of the term loans outstanding at September 30, 2002, which were adjusted to reflect non-mandatory prepayments, are summarized as follows:

	($ in millions)
Remainder of 2002	--
2003	$ 71.5
2004	$ 83.7
2005	$ 89.0
2006	$ 55.7
2007	$ 93.6
2008	$363.1
2009	$181.6

The Company is required, under certain circumstances as defined in the credit facility, to use a percentage of excess cash generated from operations to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2002 under this provision.

The term loans bear floating interest rates based on LIBOR plus a borrowing spread, or the prime rate plus a borrowing spread, at the option of the Company. The borrowing spread for the senior credit facilities can increase or decrease based on the leverage ratio as defined in the credit facility agreement and on the Company's public debt ratings. At September 30, 2002, the interest rates on the term loans were 4.5625%, and 4.0625% relating to the Tranche A term loan facility, 6.1250% related to a Euro denominated portion of the Tranche A and 4.8750% and 4.5625% relating to the Tranche C term loan facility.

Under the senior credit facilities, the Company also has a $300 million revolving credit facility that expires in June 2006. The revolving credit facility also allows the Company to issue up to $200 million in letters of credit. During 2002, the Company made payments of $70 million on the revolving credit facility. Consequently, there were no amounts outstanding under the revolving credit facility at September 30, 2002, however, $42.1 million of letters of credit had been issued under

the facility, which reduced borrowing capacity of the facility to $257.9 million.

SENIOR SUBORDINATED NOTES

At September 30, 2002, the Company had $186 million and EUR 63 million (equivalent to $62 million) of Senior Subordinated Notes outstanding.

The notes were issued during 2000 by the Company and its Dutch subsidiary, Flowserve Finance B.V. At the date of issuance, the Senior Subordinated Notes, due in August 2010, resulted in proceeds of $285.9 million (U.S. dollar Notes) and EUR 98.6 million (Euro Notes), which then equated to $89.2 million. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and of Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and of Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries and, in the case of the Euro Notes, by the Company. The Senior Subordinated Notes were originally issued at a discount to yield 12.5%, but bear interest at 12.25%. Approximately one-third of these Senior Subordinated Notes were repurchased at a premium in 2001 utilizing proceeds of an equity offering. Beginning in 2005, these Senior Subordinated Notes become callable at a fixed redemption price, and can also be redeemed by the Company under certain circumstances.

COVENANT COMPLIANCE

The provisions of the Company's senior credit facilities require it to meet or exceed specified defined financial covenants, including a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of these and other debt agreements generally limit or restrict indebtedness, liens, sale and leaseback transactions, asset sales, and payment of dividends, capital expenditures, and other activities. As of September 30, 2002, the Company was in compliance with all covenants under its debt facilities.

7. INVENTORIES

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

Inventories and the method of determining costs were:

	September 30, 2002	December 31, 2001
Raw materials	$ 133,416	$ 62,818
Work in process	240,487	146,494
Finished goods	255,475	258,856
Less: Progress billings	(70,786)	(43,655)
Less: Excess and obsolete reserve	(39,498)	(42,986)
	519,094	381,527
LIFO reserve	(33,332)	(33,936)
Net inventory	$ 485,762	$ 347,591

Percent of inventory accounted for by:		
LIFO	59%	62%
FIFO	41%	38%

Inventory balances increased primarily as a result of the IFC Acquisition and due to foreign currency translations, primarily due to the strengthening of the Euro in 2002. The decline in the excess and obsolete reserve from December 31, 2001 and June 30, 2002 generally reflects the physical disposal of non-saleable inventory during the third quarter of 2002.

8. RESTRUCTURING AND INTEGRATION EXPENSES

IFC ACQUISITION

In June 2002, in conjunction with the IFC Acquisition, the Company initiated a restructuring program designed to reduce costs and eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the second and third quarters of 2002, are expected to result in a gross reduction of approximately 575 positions and a net reduction of approximately 275 positions.

This program includes the announced closure of seven valve facilities and a reduction of sales

and related support personnel. The Company established a restructuring reserve of $11.0 million in the second quarter and increased the reserve by $2.8 million in the third quarter of 2002 for this program. The Company expects the majority of the reductions and closures to occur before June 2003. Costs associated with the closure of Flowserve facilities of $2.2 million and $2.9 million for the three and nine months ended September 30, 2002, have been recognized as restructuring expense in the statement of operations, whereas costs associated with the closure of IFC facilities of $11.0 million, along with related deferred taxes, became part of the purchase price allocation of the transaction. The effect of these closure costs increased the amount of goodwill otherwise recognizable as a result of the IFC acquisition.

The following illustrates activity related to the IFC restructuring reserve:

	Severance	Other Exit Costs	Total
Balance at June 5, 2002	$ 6,880	$ 4,160	$ 11,040
Cash expenditures	(146)	(8)	(154)
Balance at June 30, 2002	$ 6,734	$ 4,152	$ 10,886
Additional accruals	1,880	947	2,827
Cash expenditures	(897)	(494)	(1,391)
Balance at September 30, 2002	$ 7,717	$ 4,605	$ 12,322

During the third quarter of 2002 and for the nine months ended September 30, 2002, the Company also incurred $6.1 million and $8.1 million, respectively, of integration expense in conjunction with the program. Expenses classified as integration generally represent period costs associated with acquisition-related reorganizations such as relocation of product lines from closed to receiving facilities, realignment of receiving facilities, performance and retention bonuses, idle manufacturing costs, costs related to the integration team and asset impairments.

The following summaries the integration expense recognized during 2002 (in millions):

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Cash expense	$ 5.7	$ 7.3
Non-cash expense	0.4	0.8
Total expense	$ 6.1	$ 8.1

Additional restructuring and integration expense related to the IFC acquisition are expected in subsequent quarters. The impact of additional restructuring activities will be recorded as programs are detailed, approved and announced.

IDP ACQUISITION

In August 2000, in conjunction with the acquisition of Ingersoll-Dresser Pump Company (IDP), the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities.

In the third quarter of 2001 and for the nine months ended September 30, 2001, the Company incurred integration expense in conjunction with the program of $13.8 million and $49.8 million, respectively. The Company substantially completed its integration activities during 2001 and expects the majority of the remaining expenditures to be completed by December 31, 2002.

The following illustrates activity related to the IDP restructuring reserve:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	2,402	3,119	5,521
Cash expenditures	(269)	(112)	(381)
Balance at March 31, 2002	$ 2,133	$ 3,007	$ 5,140
Cash expenditures	(93)	(301)	(394)
Balance at June 30, 2002	$ 2,040	$ 2,706	$ 4,746
Cash expenditures	(193)	(214)	(407)
Net non-cash reduction	(455)	(510)	(965)
Balance at September 30, 2002	$ 1,392	$ 1,982	$ 3,374

9. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Net earnings	$ 9,347	$ 5,833
Denominator for basic earnings per share -- weighted average shares	55,149	38,205
Effect of dilutive securities	126	494
Denominator for diluted		

earnings per share -- weighted average shares adjusted for dilutive securities	55,275	38,699
Earnings per share		
-- basic	$ 0.17	$ 0.15
-- diluted	$ 0.17	$ 0.15

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Net earnings (loss)	$ 36,430	$ (105)
Denominator for basic earnings per share -- weighted average shares	50,786	37,986
Effect of dilutive securities	484	--
Denominator for diluted earnings per share -- weighted average shares adjusted for dilutive securities	51,270	37,986
Earnings (loss) per share		
-- basic	$ 0.72	$ --
-- diluted	$ 0.71	$ --

Options outstanding with an exercise price greater than the average market price of the common stock were not included in the computation of diluted shares. For the three month and nine month periods ended September 30, 2002, options to purchase 1,339,746 shares of common stock and 813,253 shares of common stock, respectively, were not included of which options to purchase 358,756 shares at $24.84 per share were issued during July 2002. Options to purchase 1,095 shares of common stock were not included in the computation for the three month period ended September 30, 2001. For the nine months ended September 30, 2001, the computation of diluted net loss per ordinary share was antidilutive, and therefore, the amounts reported for basic and diluted net loss per ordinary share were the same.

10. SEGMENT INFORMATION

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

Amounts classified as All Other include the corporate headquarters costs and other minor entities that are not considered separate segments. The Company evaluates segment performance and allocates resources based on profit or loss excluding integration expenses, restructuring expense, interest expense, other income or expense, income taxes and extraordinary items. Intersegment sales and transfers are recorded at cost plus a profit margin.

Effective July 1, 2002, the Company realigned its operating segments. Under the new organization, the Flow Solutions Division includes the Company's seal operations, while the Company's pump and valve service businesses (previously included in the Flow Solutions Division) have been included, as appropriate, in the Flowserve Pump Division and Flow Control Division, respectively. Segment information for all periods presented herein have been reported under the new organization structure.

A supplemental financial table of selected financial data for the previous five quarters reclassified to conform to the new organization structure was presented in the Company's Form 10-Q for the quarter ended June 30, 2002 under Supplemental Segment Information of Management's Discussion and Analysis.

Three Months Ended September 30, 2002	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 288,653	$ 80,291	$ 216,367	$ 1,400	$ 586,711
Intersegment sales	3,049	6,094	1,802	(10,945)	--
Segment operating income (before special items) (1)	25,165	17,608	15,812	(7,893)	50,692
Identifiable assets	$ 1,371,677	$ 188,180	$ 1,000,678	$ 114,642	$ 2,675,177

Three Months Ended September 30, 2001	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 278,313	$ 79,759	$ 110,191	$ 1,342	$ 469,605
Intersegment sales	2,569	5,025	2,102	(9,696)	--
Segment operating income (before special items) (2)	31,961	16,231	10,788	(7,664)	51,316
Identifiable assets	$ 1,479,257	$ 213,851	$ 336,308	$ 69,126	$ 2,098,542

(1) Special items totaling $10.9 million reflect costs associated with the IFC Acquisition including a negative purchase accounting adjustment associated with the required write-up and sale of inventory of $2.6 million (recorded as a component of cost of sales), integration expense of $6.1 million, and restructuring expense of $2.2 million.

(2) Special items reflect integration expense associated with the acquisition and integration of IDP of $13.8 million.

A reconciliation of total segment operating income before special items to consolidated earnings before income taxes follows:

	Three Months Ended September 30, 2002	2001
Total segment operating income (before special items)	$ 58,585	$ 58,980
Corporate expenses and other	7,893	7,664
Net interest expense	23,800	28,326
Other expense	848	119
Special items:		
Purchase accounting adjustment associated with the required write-up of inventory	2,600	--
Integration expense	6,072	13,757
Restructuring expense	2,233	--
Earnings before income taxes	$ 15,139	$ 9,114

Nine Months Ended September 30, 2002	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 868,931	$ 242,425	$ 510,425	$ 4,709	$ 1,626,490
Intersegment sales	7,719	16,742	4,930	(29,391)	--
Segment operating income (before special items) (1)	97,531	48,508	31,280	(22,141)	155,178
Identifiable assets	$ 1,371,677	$ 188,180	$ 1,000,678	$ 114,642	$ 2,675,177

Nine Months Ended September 30, 2001	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 806,280	$ 232,602	$ 335,473	$ 3,864	$ 1,378,219
Intersegment sales	6,397	15,099	6,802	(28,298)	--
Segment operating income (before special items) (2)	88,265	42,339	33,930	(23,642)	140,892
Identifiable assets	$ 1,479,257	$ 213,851	$ 336,308	$ 69,126	$ 2,098,542

(1) Special items totaling $16.2 million reflect costs associated with the IFC Acquisition including a negative purchase accounting adjustment associated with the required write-up and sale of inventory of $5.2 million (recorded as a component of cost of sales), integration expense of $8.1 million, and restructuring expense of $2.9 million.

(2) Special items reflect integration expense associated with the acquisition and integration of IDP of $49.8 million.

A reconciliation of total segment operating income before special items to consolidated earnings before income taxes follows:

	Nine Months Ended September 30, 2002	2001
Total segment operating income (before special items)	$ 177,319	$ 164,534
Corporate expenses and other	22,141	23,642
Net interest expense	69,512	91,497
Other expense (income)	2,957	(281)
Special items:		
Purchase accounting adjustment associated with the required write-up of inventory	5,200	--
Integration expense	8,077	49,840
Restructuring expense	2,877	--
Earnings (loss) before income taxes	$ 66,555	$ (164)

11. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

Pursuant to the Senior Subordinated Notes (see footnote 6), the following consolidating financial information presents:

(1) Consolidating balance sheet as of September 30, 2002 and the related statements of operations for the three and nine month periods ended September 30, 2002 and September 30, 2001 and cash flows for the nine months ended September 30, 2002 and 2001 of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

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

(AMOUNTS IN THOUSANDS)

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

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor subsidiaries and the nonguarantor subsidiaries are omitted because of immateriality.

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ --	$ --	$ 309,328	$ 303,479	$ (26,096)	$ 586,711
Cost of sales	--	--	224,879	212,384	(26,096)	411,167
Gross profit	--	--	84,449	91,095	--	175,544
Selling, general and administrative expense	--	--	81,003	46,449	--	127,452
Integration expense	--	--	5,667	405	--	6,072
Restructuring expense	--	--	2,020	213	--	2,233
Operating income (loss)	--	--	(4,241)	44,028	--	39,787
Net interest expense	289	5,582	16,012	1,917	--	23,800
Other expense (income), net	--	--	(11,808)	12,656	--	848
Equity in earnings of subsidiaries	(10,023)	--	--	--	10,023	--
Earnings (loss) before income taxes	9,734	(5,582)	(8,445)	29,455	(10,023)	15,139
Provision (benefit) for income taxes	(106)	--	(3,125)	8,530	--	5,299
Net earnings (loss) before extraordinary item	9,840	(5,582)	(5,320)	20,925	(10,023)	9,840
Extraordinary item, net of income tax	493	--	--	--	--	493
Net earnings (loss)	$ 9,347	$ (5,582)	$ (5,320)	$ 20,925	$ (10,023)	$ 9,347

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ --	$ --	$ 288,752	$ 214,745	$ (33,892)	$ 469,605
Cost of sales	--	--	206,439	144,744	(33,892)	317,291
Gross profit	--	--	82,313	70,001	--	152,314
Selling, general and administrative expense	--	--	71,916	29,082	--	100,998
Integration expense	--	--	10,154	3,603	--	13,757
Operating income	--	--	243	37,316	--	37,559

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Net interest expense	2,985	1,295	20,266	3,709	71	28,326
Other expense (income), net	(306)	(1)	(8,335)	8,832	(71)	119
Equity in earnings of subsidiaries	(7,521)	--	--	--	7,521	--
Earnings (loss) before income taxes	4,842	(1,294)	(11,688)	24,775	(7,521)	9,114
Provision (benefit) for income taxes	(991)	--	(4,324)	8,596	--	3,281
Net earnings (loss)	$ 5,833	$ (1,294)	$ (7,364)	$ 16,179	$ (7,521)	$ 5,833

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ --	$ --	$ 920,303	$ 779,472	$ (73,285)	$1,626,490
Cost of sales	--	--	668,959	531,211	(73,285)	1,126,885
Gross profit	--	--	251,344	248,261	--	499,605
Selling, general and administrative expense	--	--	229,402	120,225	--	349,627
Integration expense	--	--	7,246	831	--	8,077
Restructuring expense	--	--	2,664	213	--	2,877
Operating income	--	--	12,032	126,992	--	139,024
Net interest expense	588	8,605	53,115	7,204	--	69,512
Other expense (income), net	34	--	(19,761)	22,684	--	2,957
Equity in earnings of subsidiaries	(43,654)	--	--	--	43,654	--
Earnings (loss) before income taxes	43,032	(8,605)	(21,322)	97,104	(43,654)	66,555
Provision (benefit) for income taxes	(229)	--	(7,889)	31,412	--	23,294
Net earnings (loss) before extraordinary items	43,261	(8,605)	(13,433)	65,692	(43,654)	43,261
Extraordinary items, net of income tax	6,831	--	--	--	--	6,831
Net earnings (loss)	$ 36,430	$ (8,605)	$ (13,433)	$ 65,692	$ (43,654)	$ 36,430

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Sales	$ --	$ --	$ 876,873	$ 591,326	$ (89,980)	$ 1,378,219
Cost of sales	--	--	621,030	401,603	(89,980)	932,653
Gross profit	--	--	255,843	189,723	--	445,566
Selling, general and administrative expense	--	--	213,455	91,219	--	304,674
Integration expense	--	--	39,122	10,718	--	49,840
Operating income	--	--	3,266	87,786	--	91,052
Net interest expense	14,997	1,730	64,752	10,018	--	91,497
Other (income) expense, net	(579)	2	(22,306)	22,602	--	(281)
Equity in earnings of subsidiaries	(8,978)	--	--	--	8,978	--
Earnings (loss) before income taxes	(5,440)	(1,732)	(39,180)	55,166	(8,978)	(164)
(Benefit) provision for income taxes	(5,335)	--	(15,705)	20,981	--	(59)
Net (loss) earnings	$ (105)	$ (1,732)	$ (23,475)	$ 34,185	$ (8,978)	$ (105)

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS)
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2002
(UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 32,830	$ --	$ 32,830
Intercompany receivables	149,219	6,550	67,923	49,330	(273,022)	--
Accounts receivable, net	--	--	219,925	290,404	--	510,329
Inventories	--	--	273,738	212,024	--	485,762
Deferred tax assets	--	--	39,209	1,739	--	40,948
Prepaid expenses	--	--	14,885	21,854	--	36,739
Total current assets	149,219	6,550	615,680	608,181	(273,022)	1,106,608
Property, plant and equipment, net	--	--	273,860	201,387	--	475,247
Investment in subsidiaries	472,559	278,515	533,001	--	(1,284,075)	--
Intercompany receivables	1,240,440	84,591	204,228	250,061	(1,779,320)	--
Goodwill	--	--	590,459	184,599	--	775,058
Other intangible assets, net	--	--	181,271	1,993	--	183,264
Other assets	21,483	2,690	81,047	29,780	--	135,000
Total assets	$ 1,883,701	$ 372,346	$ 2,479,546	$ 1,276,001	$(3,336,417)	$ 2,675,177
Current liabilities:						
Accounts payable	$ --	$ --	$ 91,641	$ 113,523	$ --	$ 205,164
Intercompany payables	(215)	18,692	230,867	23,678	(273,022)	--
Income taxes	8,134	--	(18,260)	17,214	--	7,088
Accrued liabilities	4,976	4,855	129,415	87,647	--	226,893
Long-term debt due within one year	50,519	--	--	137	--	50,656
Total current liabilities	63,414	23,547	433,663	242,199	(273,022)	489,801
Long-term debt due after one year	1,065,364	62,040	420	9,704	--	1,137,528
Intercompany payables	--	303,201	1,286,375	189,744	(1,779,320)	--
Retirement benefits and other liabilities	--	--	176,305	116,620	--	292,925
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common stock	72,018	--	2	182,331	(182,333)	72,018
Capital in excess of par value	477,368	--	381,357	423,366	(804,723)	477,368
Retained earnings (deficit)	392,428	(16,803)	223,846	227,932	(434,975)	392,428
	941,814	(16,803)	605,205	833,629	(1,422,031)	941,814
Treasury stock at cost	(65,961)	--	--	--	--	(65,961)
Deferred compensation obligation	8,566	--	--	--	--	8,566
Accumulated other comprehensive (loss) income	(129,496)	361	(22,422)	(115,895)	137,956	(129,496)
Total shareholders' equity	754,923	(16,442)	582,783	717,734	(1,284,075)	754,923
Total liabilities and shareholders' equity	$ 1,883,701	$ 372,346	$ 2,479,546	$ 1,276,001	$(3,336,417)	$ 2,675,177

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

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 21,533	$ --	$ 21,533
Intercompany receivables	82,513	--	62,875	77,513	(222,901)	--

Accounts receivable, net	--	--	231,484	224,377	--	455,861
Inventories	--	--	201,707	145,884	--	347,591
Deferred tax assets	--	--	33,727	2,589	--	36,316
Prepaid expenses	--	--	22,981	13,857	--	36,838
Total current assets	82,513	--	552,774	485,753	(222,901)	898,139
Property, plant and equipment, net	--	--	201,595	160,793	--	362,388
Investment in subsidiaries	399,026	--	464,633	--	(863,659)	--
Intercompany receivables	901,675	85,254	6,198	34,003	(1,027,130)	--
Goodwill	--	--	414,465	100,710	--	515,175
Other intangible assets, net	--	--	115,123	15,956	--	131,079
Other assets	29,094	2,693	100,320	13,087	--	145,194
Total assets	$ 1,412,308	$ 87,947	$ 1,855,108	$ 810,302	$(2,113,690)	$ 2,051,975
Current liabilities:						
Accounts payable	$ 145	$ --	$ 85,861	$ 92,474	$ --	$ 178,480
Intercompany payables	4,240	(1,191)	45,004	174,848	(222,901)	--
Income taxes	(1,257)	--	(15,606)	16,863	--	--
Accrued liabilities	15,034	2,665	107,191	68,878	--	193,768
Long-term debt due within one year	44,521	--	2	--	--	44,523
Total current liabilities	62,683	1,474	222,452	353,063	(222,901)	416,771
Long-term debt due after one year	938,606	57,163	420	33	--	996,222
Intercompany payables	--	37,115	939,245	50,770	(1,027,130)	--
Retirement benefits and other liabilities	--	--	172,483	55,480	--	227,963
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common stock	60,518	--	2	182,331	(182,333)	60,518
Capital in excess of par value	211,113	--	313,221	72,991	(386,212)	211,113
Retained earnings (deficit)	355,998	(8,198)	237,279	162,241	(391,322)	355,998
	627,629	(8,198)	550,502	417,563	(959,867)	627,629
Treasury stock at cost	(82,718)	--	--	--	--	(82,718)
Deferred compensation obligation	8,260	--	--	--	--	8,260
Accumulated other comprehensive (loss) income	(142,152)	393	(29,994)	(66,607)	96,208	(142,152)
Total shareholders' equity	411,019	(7,805)	520,508	350,956	(863,659)	411,019
Total liabilities and shareholders' equity	$ 1,412,308	$ 87,947	$ 1,855,108	$ 810,302	$(2,113,690)	$ 2,051,975

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 (UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS -- OPERATING ACTIVITIES:						
Net earnings (loss)	$ 36,430	$ (8,605)	$ (13,433)	$ 65,692	$ (43,654)	$ 36,430
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:						
Depreciation	--	--	22,594	18,880	--	41,474
Amortization	--	--	5,982	428	--	6,410
Amortization of prepaid financing fees and discount	3,871	287	--	--	--	4,158
Write-off of unamortized prepaid financing fees	9,669	--	--	--	--	9,669
Other direct costs of long-term debt repayment	726	--	--	--	--	726
Net gain on disposition of fixed assets	--	--	(426)	(734)	--	(1,160)
Change in assets and liabilities, net of acquisitions:						
Accounts receivable	--	--	46,674	(382)	--	46,292
Inventories	--	--	(12,990)	(1,967)	--	(14,957)
Intercompany receivable and payable	(418,219)	264,531	251,290	(142,065)	44,463	--
Prepaid expenses	--	643	10,397	(2,908)	--	8,132
Other assets	(903)	45	8,820	(12,306)	--	(4,344)
Accounts payable	945	--	(14,866)	(8,623)	--	(22,544)
Accrued liabilities	(9,241)	2,157	(13,517)	5,664	--	(14,937)
Income taxes	9,391	--	(2,545)	675	--	7,521
Retirement benefits and other liabilities	217	--	3,822	(1,323)	--	2,716
Net deferred taxes	--	--	19,690	1,853	--	21,543
Net cash flows (used) provided by operating activities	(367,114)	259,058	311,492	(77,116)	809	127,129
CASH FLOWS -- INVESTING ACTIVITIES:						
Capital expenditures	--	--	(12,673)	(9,248)	--	(21,921)
Cash received for disposal of						

assets	--	--	4,362	--	--	4,362
Payments for acquisitions, net of cash acquired	--	--	(313,988)	(216,425)	--	(530,413)
Change in investments in subsidiaries	(115,437)	(258,438)	(55,716)	10,924	418,667	--
Net cash flows (used) provided by investing activities	(115,437)	(258,438)	(378,015)	(214,749)	418,667	(547,972)
CASH FLOWS -- FINANCING ACTIVITIES:						
Net repayments under lines of credit	(70,121)	--	(2)	123	--	(70,000)
Proceeds from long-term debt	785,510	(1,347)	--	11,143	--	795,306
Payments of long-term debt	(583,923)	--	--	--	--	(583,923)
Payment of prepaid financing fees	(5,769)	--	--	726	--	(5,043)
Other direct costs of long-term debt repayment	(726)	--	--	--	--	(726)
Proceeds from issuance of common stock	275,925	--	--	--	--	275,925
Net proceeds from stock option activity	16,849	--	--	--	--	16,849
Cash dividends paid	--	--	10,482	(10,482)	--	--
Other	64,806	727	56,037	297,668	(419,476)	(238)
Net cash flows provided (used) by financing activities	482,551	(620)	66,517	299,178	(419,476)	428,150
Effect of exchange rate changes	--	--	6	3,984	--	3,990
Net change in cash and cash equivalents	--	--	--	11,297	--	11,297
Cash and cash equivalents at beginning of year	--	--	--	21,533	--	21,533
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 32,830	$ --	$ 32,830

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AMOUNTS IN THOUSANDS)
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED)

	PARENT	FLOWSERVE FINANCE B.V.	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
CASH FLOWS -- OPERATING ACTIVITIES:						
Net earnings (loss)	$ (105)	$ (1,732)	$ (23,475)	$ 34,185	$ (8,978)	$ (105)
Adjustments to reconcile net earnings (loss) to net cash (used) provided by operating activities:						
Depreciation	--	--	21,688	15,064	--	36,752
Amortization	--	--	16,267	2,695	--	18,962
Amortization of prepaid financing fees and discount	4,629	454	--	--	--	5,083
Write-off of unamortized prepaid financing fees	--	--	--	--	--	--
Other direct costs of long-term debt repayment	--	--	--	--	--	--
Net gain on disposition of fixed assets	--	--	(87)	(349)	--	(436)
Change in assets and liabilities, net of acquisitions:						
Accounts receivable	(200)	--	(19,361)	28,508	--	8,947
Inventories	(5,759)	--	(10,264)	(32,006)	--	(48,029)
Intercompany receivable and payable	(35,016)	858	47,512	28,999	(42,353)	--
Prepaid expenses	877	--	(4,063)	1,119	--	(2,067)
Other assets	2,853	(95)	27,965	(39,219)	--	(8,496)
Accounts payable	4,376	--	(15,275)	(9,956)	3,396	(17,459)
Accrued liabilities	13,837	351	(33,770)	(36,635)	--	(56,217)
Income taxes	5,103	--	10,074	(18,376)	--	(3,199)
Retirement benefits and other liabilities	(16,982)	--	(2,747)	14,042	--	(5,687)
Net deferred taxes	(238)	--	(2,759)	2,313	--	(684)
Net cash flows (used) provided by operating activities	(26,625)	(164)	11,705	(9,616)	(47,935)	(72,635)
CASH FLOWS -- INVESTING ACTIVITIES:						
Capital expenditures	--	--	(16,852)	(11,493)	--	(28,345)
Cash received for disposal of assets	--	--	5,162	3,291	--	8,453
Payments for acquisitions, net of cash acquired	--	--	--	--	--	--
Change in investments in subsidiaries	(51,332)	--	--	--	51,332	--
Net cash flows (used) provided by investing activities	(51,332)	--	(11,690)	(8,202)	51,332	(19,892)
CASH FLOWS -- FINANCING ACTIVITIES:						
Net repayments under lines of credit						
Proceeds from long-term debt	86,170	--	--	--	--	86,170
Payments of long-term debt	(17,311)	--	--	170	--	(17,141)
Payment of prepaid financing fees	--	--	--	--	--	--
Other direct costs of long-term debt repayment	--	--	--	--	--	--

Proceeds from issuance of common stock	--	--	--	--	--	--
Net proceeds from stock option activity	9,098	164	--	797	(962)	9,097
Other	--	--	--	--	--	--
Net cash flows provided (used) by financing activities	77,957	164	--	967	(962)	78,126
Effect of exchange rate changes	--	--	(15)	(3,069)	--	(3,084)
Net change in cash and cash equivalents	--	--	--	(19,920)	2,435	(17,485)
Cash and cash equivalents at beginning of year	--	--	--	50,239	(7,898)	42,341
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 30,319	$ (5,463)	$ 24,856

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis are provided to increase understanding of, and should be read in conjunction with, the accompanying consolidated financial statements and notes.

Flowserve produces engineered and industrial pumps, industrial valves, control valves, nuclear valves, valve actuators and controls and precision mechanical seals, and provides a range of related flow management services worldwide, primarily for the process industries. Equipment manufactured and serviced by the Company is predominately used in industries that deal with difficult-to-handle and corrosive fluids as well as environments with extreme temperature, pressure, horsepower and speed. Flowserve's businesses are affected by economic conditions in the United States and other countries where its products are sold and serviced, by the cyclical nature of the petroleum, chemical, power, water and other industries served, by the relationship of the U.S. dollar to other currencies, and by the demand for and pricing of customers' products. The Company believes the impact of these conditions is somewhat mitigated by the strength and diversity of Flowserve's product lines, geographic coverage and significant installed base, which provides potential for an annuity stream of revenue from parts and services.

In general, results for the third quarter of 2002 and the nine months ended September 30, 2002 were higher than the corresponding period in the previous year due to the Company's acquisition of Invensys' flow control division (IFC) on May 2, 2002. The results for IFC subsequent to the date of acquisition are included in the results for the Company's Flow Control Division. The IFC acquisition was financed through a combination of debt and proceeds from a common stock offering as discussed in further detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis.

Special items recognized during 2002 generally associated with the acquisition of IFC include the following (in millions):

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Integration expense	$ 6.1	$ 8.1
Restructuring expense	2.2	2.9
Purchase accounting adjustment for inventory	2.6	5.2
Extraordinary loss on early extinguishment of debt, pretax	0.8	10.7

Total	$ 11.7	$ 26.9
	======	======

Special items in 2001 include integration expense of $13.8 million for the third quarter and $49.8 million for the nine month period associated with the August 2000 acquisition of Ingersoll-Dresser Pump Co. (IDP).

Operating results before special items should not be considered an alternative to operating results determined in accordance with generally accepted accounting principles.

Pro forma results referenced throughout this Management's Discussion and Analysis assume that the acquisition of IFC occurred on January 1, 2001 and include estimated purchase accounting and financing impacts. The pro forma information is provided solely to enhance understanding of the operating results, not to purport what the Company's results of income would have been had such transactions or events occurred on the dates specified or to project the Company's results of operations for any future period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that the Company's consolidated financial statements provide a meaningful and fair perspective of the Company. This is not to suggest that other general risk factors, such as changes in worldwide growth objectives,

changes in material costs, performance of acquired businesses and others, could not adversely impact the Company's consolidated financial position, results of operations and cash flows in future periods.

The process of preparing financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond the Company's control change. Accordingly, actual results could differ materially from those estimates. The most significant estimates made by management include the allowance for doubtful accounts receivable, reserves for excess and obsolete inventories, deferred tax asset valuation allowances, restructuring accruals, legal and environmental accruals, warranty accruals, insurance accruals, pension and postretirement benefit obligations, and valuation of goodwill and other long-lived assets. The significant estimates are reviewed quarterly with the Company's Audit/Finance Committee. The following is a discussion of the critical accounting policies and the related management estimates and assumptions necessary in determining the value of related assets or liabilities.

REVENUE RECOGNITION

Revenues and costs are generally recognized based on the shipping terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions required of the Company. Revenue for certain longer-term contracts is recognized based on the percentage of completion method calculated on a cost to cost basis. Shipping and handling costs are reported in cost of sales and amounts billed to customers for these costs are included in revenues. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

An allowance for doubtful accounts receivable is established based on estimates of the amount of uncollectible accounts receivable. The amount of the required allowance is determined based upon the aging of the receivable, customer credit history, industry and market segment information, economic trends and conditions, credit reports and customer financial condition. Customer credit issues, customer bankruptcies or general economic conditions can affect the estimates.

INVENTORIES

Inventories are stated at the lower-of-cost or market. Cost is determined for U.S. inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method. Provisions for excess and obsolete inventories are based on an assessment of slow-moving and obsolete inventories. A factor of historical usage and estimated future demand provide the basis for the estimates. These estimates are generally not subject to significant volatility due to the relatively long life cycle of the Company's products except for product rationalizations, which may occur in conjunction with an acquisition.

DEFERRED TAX ASSET VALUATION

Deferred tax assets and liabilities are established based on the profits or losses in each jurisdiction in which the Company operates. Associated valuation allowances reflect the likelihood of the recoverability of any such assets. The judgment of the recoverability of these assets is based primarily on the estimate of current and expected future earnings and prudent and feasible tax planning strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies.

RESTRUCTURING

Restructuring reserves are generally established in conjunction with an acquisition. The reserve reflects many estimates including those pertaining to employee separation costs, settlements of contractual obligations and other costs associated with exiting a facility. Restructuring costs related to facilities and employees of an acquired business generally become a component of goodwill, whereas non-acquisition related restructuring costs are recorded as restructuring expense in the statement of operations. Reserve requirements for each restructuring plan are assessed quarterly and susceptible to adjustment due to revisions of cost estimates and other changes in planned restructuring activities.

LEGAL AND ENVIRONMENTAL ACCRUALS

The costs relating to legal and environmental liabilities are estimated and recorded when it is probable that a loss has been incurred and such loss is estimable. The Company has a formal process for assessing the facts and circumstances and recording such contingencies on a case-by-case basis. Assessments of legal and environmental costs are based on information obtained from the Company's experts plus the Company's loss experience in similar situations. The estimates may vary in the future due to new developments regarding the facts and circumstances of each matter.

WARRANTY ACCRUALS

Warranty obligations are based upon product failure rates, materials usage or service delivery costs. The Company estimates its warranty provisions based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. The estimates of expected claims are generally a factor of historical claims. Changes in claim rates, differences between actual and expected warranty costs and the Company's facility rationalization activities could impact warranty obligation estimates.

INSURANCE ACCRUALS

Insurance accruals are recorded based upon an analysis of the Company's claim loss history, insurance deductibles, policy limits, and an estimate of incurred but not recorded claims. The estimates are based upon information received from the insurance company adjusters. Changes in claims and differences between actual and expected claim losses could impact the accrual in the future.

PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS

Determination of the value of the pension and postretirement benefits liabilities is based on actuarial valuations. Inherent in these valuations are key assumptions including discount rates, market value of plan assets, expected return on plan assets and assumed rate of increase in wages or in health care costs. Current market conditions, including changes in rates of returns, interest rates and medical inflation rates are considered in selecting these assumptions. Changes in the related pension and postretirement benefit costs may occur in the future due to changes in the assumptions used and changes resulting from fluctuations in the Company's related headcount.

VALUATION OF GOODWILL AND OTHER LONG-LIVED ASSETS

The value of the Company's goodwill and indefinite-lived intangible assets are tested annually for impairment or whenever events or circumstances indicate goodwill may be impaired. The test involves significant judgment in estimating projections of future performance of each of the Company's reporting units. The net realizable value of other long-lived assets is reviewed periodically, when indicators of potential impairments are present, based upon an assessment of the estimated future cash flows related to those assets. Due to uncertain market conditions and potential changes in strategy and product portfolio, it is possible that forecasts used to support these assets may change in the future which could result in non-cash charges

that would adversely affect the Company's results of operations and financial condition.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED SEPTEMBER 30, 2002

Sales increased 24.9% to $586.7 million for the three months ended September 30, 2002, compared with $469.6 million for the same period in 2001. The increase is primarily associated with the IFC acquisition, which contributed $121.1 million of sales in the third quarter, and a higher volume of engineered project sales in the petroleum and water markets. Despite the high volume of engineered project sales in the current quarter, pro forma sales including IFC in third quarter of 2001 were down 3.4% from $607.6 million primarily due to weakness in the chemical, power and general industrial sectors. Currency translation had virtually no impact on third quarter 2002 sales. Net sales to international customers, including export sales from the U.S., were 58% of sales, compared with 48% in the third quarter of 2001. IFC's proportionately higher mix of international sales contributed to the increase.

Bookings, or incoming orders for which there are purchase commitments, increased 19.0% to $578.0 million compared with $485.6 million in the prior year. The increase reflects IFC, which contributed $109.8 million of bookings in the third quarter of 2002. Bookings on a pro forma basis were down 6.8% from $620.4 million in the prior year due to weakness in the quick turnaround business for the chemical and general industrial sectors as well as declines in power business. Bookings of industrial pumps, manual valves and related services were most significantly impacted by the market weakness. Currency translation had virtually no impact on third quarter 2002 bookings.

At September 30, 2002, backlog was $787.6 million, an increase of 4.1% compared with September 30, 2001 and 18.8% compared with December 31, 2001, due to the IFC Acquisition. On a pro forma basis, including IFC, backlog was $883.3 million and $780.1 million at September 30, 2001 and December 31, 2001, respectively, and has declined primarily due to lower bookings in the chemical, power, and general industrial sectors.

BUSINESS SEGMENTS

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

Effective July 1, 2002, the Company realigned its operating segments. Under the new organization, the Flow Solutions Division includes the Company's seal operations, while the Company's pump service and valve service businesses are included as appropriate in the Flowserve Pump Division and Flow Control Division, respectively. Segment information reflects the new organization structure for all periods presented. A supplemental financial table of select financial data for the previous five quarters reclassified to conform to the current organization structure was presented in the Company's Form 10-Q statement for the quarter ended June 30, 2002 under the Supplemental Segment Information section of its Management's Discussion and Analysis.

Sales and operating income before special items for each of the three business segments follows:

	FLOWSERVE PUMP DIVISION	
	Three Months Ended September 30,	
(In millions of dollars)	2002	2001
Sales	$ 291.7	$ 280.9
Operating income (before special items in 2001)	25.2	32.0

The 3.8% increase in sales for pumps, pump parts and service for Flowserve Pump Division (FPD) in the third quarter of 2002 compared with the third quarter of 2001 was largely due to improved sales of engineered pumps for projects in the petroleum and water markets. These improvements were partially offset by a lower

volume of industrial pumps and service sales to the weak chemical, power and general industrial markets.

Operating income, before special items, in 2002 decreased 21.3% from the prior period. Operating income, before special items, for 2001 would have been $36.1 million had SFAS 141 and 142 been implemented in that year. Operating income, before special items, as a percentage of sales decreased to 8.6% in the third quarter of 2002 from 11.4% in the prior year period. Operating income, before special items as a percentage of sales in 2001 would have been 12.9% in the prior year period had SFAS 141 and 142 been implemented in that year. Operating income, before special items, decreased due to a decline in the quick turnaround chemical, power and industrial sectors of industrial pumps and services, which historically are more profitable than the engineered pump project mix. In addition, unfavorable manufacturing burden variances impacted results due to lower volumes and finished goods inventory reductions in the facilities that manufacture the chemical and general industrial products. This was partially offset by the benefit of improved sales volume.

	FLOW SOLUTIONS DIVISION	
	Three Months Ended September 30,	
(In millions of dollars)	2002	2001
Sales	$ 86.4	$ 84.8
Operating income	17.6	16.2

Sales of seals for the Flow Solutions Division increased by 1.9% despite generally weakened market conditions primarily due to its emphasis on customer alliances and fixed fee agreements.

Operating income increased 8.6% due to the incremental sales volume, improved productivity, cost containment efforts and favorable benefit from the implementation of SFAS 141 and 142, which would have yielded operating income, before special items for 2001 of $16.5 million. Operating income as a percentage of sales increased to 20.4% in the current year period from 19.1% in the prior year period (19.5% had SFAS 141 and 142 been implemented in the prior year period).

	FLOW CONTROL DIVISION	
	Three Months Ended September 30,	
(In millions of dollars)	2002	2001
Sales	$ 218.2	$ 112.3
Operating income (before special items)	15.8	10.8

Sales of valves and related products and services for the Flow Control Division increased by 94.3% compared with the prior year, primarily due to the acquisition of IFC. On a pro forma basis for 2001, including IFC, sales were $249.8 million. The 12.7% decline in pro forma sales reflects the weakness in the chemical, power and general industrial sectors, particularly for manual valves and services.

Operating income, before special items, during 2002 increased 46.3% from the prior year. Operating income, before special items, on a pro forma basis for 2001 including IFC was $31.2 million. Operating income, before special items, in 2002 includes the favorable benefit from the implementation of SFAS 141 and 142, which would have increased third quarter of 2001 reported operating income by $1.1 million. Operating income, before special items, as a percentage of sales, was 7.2% in the third quarter of 2002, compared with 9.6% in 2001 (10.6% had SFAS 141 and 142 been implemented in the prior period). The decline in profitability reflects weak conditions in the chemical, power and general industrial markets, as well as lower production throughput due to lower sales volume combined with a reduction of finished goods inventories, which resulted in unfavorable manufacturing absorption variances.

CONSOLIDATED RESULTS

Gross profit of $175.5 million increased 15.2% compared with the prior year period primarily due to the acquisition of IFC. On a pro forma basis for 2001, including IFC, gross profit was $198.1 million and decreased 11.4%, due to weak demand in the chemical, power and general

industrial markets. The gross profit margin was 29.9% for the three months ended September 30, 2002, compared with 32.4% or 32.6% pro forma for the same period in 2001. Gross profit was negatively impacted by an unfavorable product mix, which contained a lower mix of historically more profitable quick turnaround business, including lower volumes of chemical and industrial pumps, industrial valves and service related activities. In addition, gross profit was adversely impacted by a higher mix of lower margin project business and unfavorable manufacturing absorption variances, which were attributable to lower production throughput due to lower sales volumes and efforts to reduce finished goods inventories at the facilities that manufacture products for the chemical, power and general industrial markets. Gross profit was also impacted in the third quarter of 2002 by a negative $2.6 million purchase accounting adjustment associated with the required write-up and subsequent sale of inventory resulting from the acquisition of IFC. This negative impact will not recur in future periods as the underlying inventory has been sold. The impact on gross profit of no longer amortizing intangible assets with indefinite useful lives was about $0.3 million in the third quarter of 2002.

Selling, general and administrative expense was $127.5 million in the third quarter of 2002. This compares with $101.0 million in the third quarter of 2001 or $95.8 million if SFAS 141 and 142 had been implemented in that period. The increase in expense predominately reflects the IFC acquisition. On a pro forma basis for 2001, including IFC, selling, general, and administrative expenses were $125.7 million. As a percentage of sales, selling, general and administrative expense was 21.7% in the third quarter of 2002 compared with 21.5% in the third quarter of 2001 and 20.7% pro forma 2001, including IFC. The increase from 2001 is generally due to inflation, partially offset by the benefit of implementation of SFAS 141 and 142.

Operating income before special items decreased 1.2% to $50.7 million in the third quarter of 2002 compared with $51.3 million in the prior year period, and decreased 30.1% compared with 2001 pro forma, including IFC, which totaled $72.5 million. Operating income before special items as a percentage of sales was 8.6% in the third quarter of 2002 compared with 10.9% in the prior year period, and 11.9% pro forma for 2001, including IFC. Operating income before special items in 2002 benefited by $5.5 million due to the implementation of SFAS 141 and 142. A less favorable product mix resulting from the weakened chemical, power and general industrial sectors and the resultant unfavorable absorption variances from the lower volume and reduction in finished goods inventories negatively impacted operating income before special items during the period.

Restructuring expense of $2.2 million and integration expense of $6.1 million related to the integration of IFC into the Flow Control Division were recognized in the third quarter of 2002, with further expense expected in subsequent quarters. Restructuring expense represents severance and other exit costs directly related to Flowserve facility closures and other work force reductions. Integration expense represents period costs associated with acquisition-related reorganizations such as relocation of product lines from closed to receiving facilities, realignment of receiving facilities, performance and retention bonuses, idle manufacturing costs, costs related to the integration team and asset impairments. Integration expense of $13.8 million was recognized in the prior year period related to the integration of IDP into the Flowserve Pump Division. See the section titled Restructuring and Acquisition Related Charges in this Management's Discussion and Analysis for further discussion of restructuring and integration expense.

Net interest expense during the third quarter of 2002 declined 16.0% to $23.8 million, compared with $28.3 million in the same period in 2001. The reduction of net interest expense resulted from lower debt levels associated with the repayment of one-third of the then outstanding Senior Subordinated Notes in the fourth quarter of 2001 with proceeds from a sale of the

Company's common shares, lower borrowing spreads associated with the renegotiation of the Company's revolving credit facility and lower interest rates on the Company's variable rate debt. However, these factors were partially offset by additional borrowings of approximately $260 million associated with the purchase of IFC.

Other expense was $0.8 million for the third quarter of 2002 compared with $0.1 million in the prior year. The expense in 2002 reflects a higher amount of foreign currency transaction losses.

The Company's effective tax rate for the third quarter of 2002 was 35.0% compared with 36.0% in the third quarter of 2001. The reduction primarily reflects the elimination of goodwill amortization resulting from the implementation of SFAS 141 and 142. Generally, amortization of goodwill is not deductible for income tax purposes which inflated the effective tax rate of prior years. The effective tax rate is based upon an estimate of future earnings for each domestic and international location as well as the estimated impact of tax planning strategies. Changes in any of these and other factors could impact the tax rate in future periods.

In the third quarter of 2002, the Company recognized an extraordinary expense of $0.5 million, net of tax, or $0.01 per share, related to the write-off of unamortized prepaid financing fees resulting from a non-mandatory repayment of debt of $70 million on September 30, 2002.

Net earnings increased in the third quarter of 2002 to $9.3 million, or $0.17 per share, compared with earnings of $5.8 million, or $0.15 per share, in the third quarter of 2001. The improvement in earnings in 2002 reflects the benefit of SFAS 141 and 142 and reduced interest, restructuring and integration expenses. Excluding special items, net earnings were $16.9 million reflecting an increase of 15.8% compared with $14.6 million in the prior year quarter. The implementation of SFAS 141 and 142 resulted in an increase of $4.0 million or $0.07 per share, in earnings in 2002. Special items in the third quarter of 2002 negatively impacted net earnings by $0.14 per share, including the $0.01 per share extraordinary loss. Special items in 2001 negatively impacted net earnings by $0.23 per share.

Average diluted shares increased by 42.9% to 55.3 million in the third quarter of 2002 compared with 38.7 million in the prior year period. The increase in shares reflects the impact from the issuance of 9.2 million common shares in late April 2002 to finance the IFC acquisition and the full impact of the equity offering in November 2001 used to retire senior subordinated debt.

A comprehensive loss of $5.7 million was recognized in the third quarter of 2002 compared with comprehensive income of $38.3 million in the prior year due to the timing of foreign currency changes between quarters. Weaker Latin American currencies and a weaker Euro at September 30, 2002 compared with June 30, 2002 resulted in a foreign currency translation adjustment of $(12.0) million in the quarter. Although weaker than the current level, the Euro strengthened in the prior year quarter, which resulted in a positive foreign currency translation adjustment of $32.8 million in that quarter. The Company expects a negative impact on its other comprehensive income in the fourth quarter of 2002 related to declines in the value of its pension plan assets in the current year and an assumed reduced discount rate. The amount of loss for the year is dependent upon market returns during the fourth quarter and the resultant value of the plan assets at December 31, 2002 relative to the projected benefit obligation. Based upon the current plan asset value and the estimated benefit obligation, the loss to be recognized in comprehensive income would not be expected to exceed $50 million. However, the ultimate amount of the loss for 2002, if any, will be unknown until final pension plan assets values for the current year are known on December 31, 2002. The Company is currently evaluating the discount rate and long-term rate of return on assets used in its determination of its benefit obligation. A hypothetical decline in the discount rate of 25 basis points would increase expense by approximately $0.2 million annually and a hypothetical decline in the long-term rate of return on assets of 50 basis points would increase expense by approximately $1.1 million annually.

RESULTS OF OPERATIONS -- NINE MONTHS ENDED SEPTEMBER 30, 2002

Sales increased 18.0% to $1,626.5 million for the nine months ended September 30, 2002, compared with $1,378.2 million for the same period in 2001. The IFC acquisition and a higher volume of engineered project sales in the petroleum and water markets positively impacted sales. Sales on a pro forma basis, including IFC, were $1,783.8 million and $1,779.1 million for 2002 and 2001, respectively. The slight decline reflects the weakness in the chemical, power, and general industrial sectors, partially offset by a higher volume of project sales for the petroleum and water markets. Currency translation had an approximate 2% negative impact on sales for the first nine months of 2002 due to weakening of the Latin American currencies, partially offset by strengthening of the Euro. Net sales to international customers, including export sales from the U.S., were 53% of sales in 2002, compared with 46% in the prior period. IFC's proportionately higher mix of international operations contributed to the increase.

Bookings, or incoming orders for which there are purchase commitments, increased approximately 7% to $1,624.1 million compared with $1,522.7 million in the prior year largely due to the IFC acquisition. Bookings on a pro forma basis for 2002 and 2001, including IFC, were $1,766.3 million and $1,940.0 million, respectively. The decline is primarily due to weakness in the quick turnaround business for the chemical, power, and general industrial sectors, which predominately impacted industrial pumps, valves and related services. Currency translation negatively impacted bookings by about 1% in the first nine months of 2002 compared with the prior year.

At September 30, 2002, backlog was $787.6 million, an increase of 4.1% compared with September 30, 2001 and 18.8% compared with December 31, 2001, due to the IFC Acquisition. On a pro forma basis, including IFC, backlog was $883.3 million and $780.1 million at September 30, 2001 and December 31, 2001, respectively, and has declined primarily due to lower bookings in the chemical, power, and general industrial sectors.

BUSINESS SEGMENTS

Sales and operating income before special items for each of the three business segments follows:

	FLOWSERVE PUMP DIVISION	
	Nine Months Ended September 30,	
(In millions of dollars)	2002	2001
Sales	$ 876.7	$ 812.7

Operating income (before special items in 2001)	97.5	88.3

Sales of pumps, pump parts and related services for the Flowserve Pump Division (FPD) for the nine months ended September 30, 2002 increased 7.9% compared with the prior year. The increase was largely due to higher sales of engineered pumps for the petroleum and water markets due in part to a higher backlog at the beginning of 2002. These improvements were partially offset by a lower volume of industrial pumps and service sales to the chemical, power, and general industrial markets and unfavorable currency translation of approximately 2%.

Operating income, before special items, in 2002 increased 10.4% from the prior period. Operating income, before special items, in 2001 would have increased by $10.6 million had the implementation of SFAS 141 and 142 taken place in 2001. Operating income, before special items, as a percentage of sales increased to 11.1% for 2002 from 10.9% in the prior year period, but decreased from 12.2% had SFAS 141 and 142 been implemented in 2001. Operating income, before special items, reflects the benefit of higher sales volume, incremental synergy benefits related to the capture of approximately $90 million of annual run rate savings associated with the integration of IDP. These benefits were partially offset by the impact of the declines in quick turnaround business in the chemical, power, and general industrial businesses, which

historically are more profitable than engineered pump projects. In addition, unfavorable manufacturing burden variances impacted results due to lower volumes and finished goods inventory reductions in the facilities that manufacture for the chemical, power, and general industrial sectors.

FLOW SOLUTIONS DIVISION

(In millions of dollars)	Nine Months Ended September 30, 2002	2001
Sales	$ 259.2	$ 247.7
Operating income	48.5	42.3

Sales of seals for the Flow Solutions Division for 2002 increased 4.6% compared with the prior year. The increase, despite generally weakened market conditions, reflects the division's emphasis on customer alliances and fixed fee agreements. Also, currency translation unfavorably impacted sales by about 3%.

Operating income increased 14.7% from the prior year. Operating income includes the favorable benefit from the implementation of SFAS 141 and 142, which would have increased 2001 reported operating income by $.9 million. Operating income as a percentage of sales increased from 17.1% in the prior year (17.4% had SFAS 141 and 142 been implemented in the prior period) to 18.7% in the current year period.

FLOW CONTROL DIVISION

Nine Months Ended

(In millions of dollars)	September 30, 2002	2001
Sales	$ 515.4	$ 342.3
Operating income (before special items)	31.3	33.9

Sales of valves and related products and services for the Flow Control Division increased 50.6% compared with the prior year, due to the acquisition of IFC. On a pro forma basis for 2002 and 2001, including IFC, sales were $672.7 million and $743.1 million, and have decreased due to weakness in the chemical, power, and general industrial sectors.

Operating income, before special items, decreased 7.7% compared with the prior year. Operating income, before special items, on a pro forma basis including IFC was $43.0 million and $91.9 million for 2002 and 2001. Operating income before special items in 2002 includes the favorable benefit from the implementation of SFAS 141 and 142, which would have increased operating income for 2001 by $3.4 million. Operating income, before special items, as a percentage of sales, was 6.1% for 2002, compared with 9.9% in 2001 (10.9% had SFAS 141 and 142 been implemented in 2001). On a pro forma basis, including IFC, for 2002 and 2001, operating income, before special items, as a percentage of sales was 7.2% and 12.4%. The decline in profitability reflects weak conditions in the chemical, power, and general industrial markets, as well as lower production throughput due to lower sales volume combined with a reduction of finished goods inventories, which resulted in unfavorable manufacturing absorption variances.

CONSOLIDATED RESULTS

Gross profit increased 12.1% to $499.6 million compared with the prior year period, reflecting the acquisition of IFC. The gross profit margin was 30.7% for 2002, compared with 32.3% for the same period in 2001. On a pro forma basis for 2002 and 2001, including IFC, gross profit was $552.4 million and $586.0 million, which yielded gross profit margins of 31.0% and 32.9%. Gross profit was negatively impacted by an unfavorable product mix of higher sales volumes of lower margin project business and a lower mix of historically more profitable quick turnaround business, including lower volumes of chemical and industrial pumps, industrial valves and service related activities. In addition, gross profit was adversely impacted by unfavorable manufacturing absorption variances, which were attributable to lower production throughput due to lower sales volumes and efforts to reduce finished goods inventories at the facilities that manufacture products for the chemical and general industrial markets. Gross profit for 2002 was also impacted by a negative $5.2 million IFC-related

purchase accounting adjustment associated with the required write-up and subsequent sale of inventory. This negative impact will not recur in future periods as all underlying inventory has been sold. These negative impacts were partially offset by incremental IDP synergy benefits related to the full capture of approximately $90 million of annual run rate of savings. The impact of no longer amortizing intangible assets with indefinite useful lives on gross profit was $1.0 million for 2002.

Selling, general and administrative expense was $349.6 million in 2002. This compares with $304.7 million in the same period in 2001 ($290.7 million if the implementation of SFAS 141 and 142 had taken place in 2001). The increase primarily reflects the IFC Acquisition. As a percentage of sales, selling, general and administrative expense was 21.5% in 2002 compared with 22.1% in 2001 (21.1% had SFAS 141 and 142 been implemented in the prior year period). Selling, general and administrative expense for 2002 and 2001 on a pro forma basis, including IFC, was $385.5 million and $387.0 million, which yielded 21.6% and 21.8% of such amounts as a percentage of sales. The improvement primarily reflects the benefit of implementation of SFAS 141 and 142, partially offset by inflationary effects.

Operating income, before special items, increased 10.1% to $155.2 million for 2002 compared with $140.9 million in the prior period. Operating income, before special items, as a percentage of sales, was 9.5% for 2002 compared with 10.2% in the prior year. Operating income, before special items, benefited by $15.0 million in 2002 from implementation of SFAS 141 and 142. Additionally, results were improved by the incremental synergy benefits related to the full capture of the approximately $90 million of annual run rate savings associated with the integration of IDP. A less favorable product mix resulting from the weakened chemical, power, and industrial business and the resultant unfavorable absorption variances from the lower volume and reduction in finished goods inventories negatively impacted operating income before special items during the period. On a pro forma basis for 2002 and 2001, including IFC, operating income, before special items was $172.1 million and $199.0 million, or 9.6% and 11.2%, respectively, as a percentage of sales.

Restructuring expense of $2.9 million and integration expense of $8.1 million were recognized in 2002 related to the integration of IFC into the Flow Control Division. Additional expense is expected in the fourth quarter of 2002. Restructuring expense represents severance and other exit costs directly related to Flowserve facility closures and reductions in force. Integration expense represents period costs associated with acquisition-related reorganizations such as relocation of product lines from closed to receiving facilities, realignment of receiving facilities, performance and retention bonuses, idle manufacturing costs, costs related to the integration team and asset impairments. Integration expense of $49.8 million related to the integration of IDP into the Flowserve Pump Division was recognized in 2001. See the section titled Restructuring and Acquisition Related Charges in this Management's Discussion and Analysis for further discussion of restructuring and integration expense.

Net interest expense during the first nine months of 2002 declined 24.0% to $69.5 million, compared with $91.5 million in the same period in 2001. The reduction of net interest expense resulted from lower debt levels associated with the repayment of one-third of the then outstanding Senior Subordinated Notes in the fourth quarter of 2001 with proceeds from a sale of the Company's common shares, lower borrowing spreads associated with the renegotiation of the Company's revolving credit facility and lower interest rates on the Company's variable rate debt. These factors were partially offset by the additional borrowings associated with the IFC Acquisition.

Other expense was $3.0 million for the nine months ended September 30, 2002 compared with income of $0.3 million in the prior year. The increase in expense reflects a higher amount of foreign currency transaction losses.

The Company's effective tax rate for the first nine months of 2002 was 35.0% compared with 36.0% for the first nine months of 2001. The reduction primarily reflects the elimination of goodwill amortization resulting from the implementation of SFAS 141 and 142 not deductible for income tax purposes. The effective tax rate is based upon an estimate of future earnings for each domestic and international location as well as the estimated impact of tax planning strategies. Changes in any of these and other factors could impact the tax rate in future periods.

During 2002, the Company recognized an extraordinary expense of $6.8 million, net of tax, or $0.13 per share, related to the write-off of unamortized prepaid financing fees and other related fees resulting from the debt amendments required pursuant to the IFC Acquisition during the second quarter and from the non-mandatory retirement of debt during the third quarter.

Net earnings of $36.4 million, or $0.72 per share, for the nine month period ended September 30, 2002 were up significantly from a loss of $0.1 million, or a loss of $.00 per share in the prior year. The improvement in earnings reflects the benefit of implementing SFAS 141 and 142 and reduced interest, integration and restructuring expenses.

Excluding special items, net earnings were $53.8 million reflecting an increase of 69.2% compared with $31.8 million in the prior year period. The implementation of SFAS 141 and 142 resulted in an increase of $10.9 million or $0.21 per share, to earnings in 2002. Special items in the first nine months of 2002 negatively impacted net earnings by $0.34 per share including the $0.13 per share extraordinary loss. Special items in 2001 negatively impacted net earnings by $0.84 per share.

Average diluted shares increased by 35.0% to 51.3 million for the nine months ended September 30, 2002 compared with 38.0 million in the prior year period. The increase in shares reflects the average weighted impact for the nine month period from the equity offering completed in late April to finance the IFC acquisition and the full impact of the equity offering in November 2001, used to retire debt.

Comprehensive income improved to $49.1 million for the nine months ended September 30, 2002 from a comprehensive loss of $24.4 million in the prior year. The improvement reflects improved net earnings and a favorable foreign currency translation adjustment resulting from the strengthening of the Euro in 2002 partially offset by weaker Latin America currencies. The Company expects a negative impact on its other comprehensive income in the fourth quarter of 2002 related to declines in the value of its pension plan assets in the current year and an assumed reduced discount rate. The amount of loss for the year is dependent upon market returns during the fourth quarter and the resultant value of the plan assets at December 31, 2002 relative to the projected benefit obligation. Based upon the current plan asset value and the estimated benefit obligation, the loss to be recognized in comprehensive income would not be expected to exceed $50 million. However, the ultimate amount of the loss for 2002, if any, will be unknown until final pension plan assets values for the current year are known on December 31, 2002. The Company is currently evaluating the discount rate and long-term rate of return on assets used in its determination of its benefit obligation. A hypothetical decline in the discount rate of 25 basis points would increase expense by approximately $0.2 million annually and a hypothetical decline in the long-term rate of return on assets of 50 basis points would increase expense by approximately $1.1 million annually.

RESTRUCTURING AND ACQUISITION RELATED CHARGES

IFC ACQUISITION

In June 2002, in conjunction with the IFC Acquisition, the Company initiated a restructuring program designed to reduce costs and eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the second and third quarters of 2002, are expected to result in a gross reduction

of approximately 575 positions and a net reduction of approximately 275 positions. Net run rate cost savings associated with the announced programs are expected to approximate $15 million to $20 million annually.

This program includes the announced closure of seven valve facilities and a reduction of sales and related support personnel. The Company established a restructuring reserve of $11.0 million in the second quarter and increased the reserve by $2.8 million in the third quarter of 2002 for this program. The Company expects the majority of the reductions and closures to occur before June 2003. Costs associated with the closure of Flowserve facilities of $2.2 million and $2.9 million for the three and nine months ended September 30, 2002, have been recognized as restructuring expense in the statement of operations, whereas costs associated with the closure of IFC facilities of $11.0 million, along with related deferred taxes, became part of the purchase price allocation of the transaction. The effect of these closure costs increased the amount of goodwill otherwise recognizable as a result of the IFC acquisition.

The following illustrates activity related to the IFC restructuring reserve:

	Severance	Other Exit Costs	Total
Balance at June 5, 2002	$ 6,880	$ 4,160	$ 11,040
Cash expenditures	(146)	(8)	(154)
Balance at June 30, 2002	$ 6,734	$ 4,152	$ 10,886
Additional accruals	1,880	947	2,827
Cash expenditures	(897)	(494)	(1,391)
Balance at September 30, 2002	$ 7,717	$ 4,605	$ 12,322

During the third quarter of 2002 and for the nine months ended September 30, 2002, the Company also incurred $6.1 million and $8.1 million, respectively, of integration expense in conjunction with the program.

The following summarizes the integration expense recognized during 2002 (in millions):

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Cash expense	$ 5.7	$ 7.3
Non-cash expense	0.4	0.8
Total expense	$ 6.1	$ 8.1

Additional restructuring and integration expense related to the IFC acquisition are expected in subsequent quarters. The impact of additional restructuring activities will be recorded as programs are detailed, approved and announced. Total restructuring and integration expenses are expected to be approximately three times annual run rate integration savings.

IDP ACQUISITION

In August 2000, in conjunction with the acquisition of Ingersoll-Dresser Pump Company (IDP), the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities.

In the third quarter of 2001 and for the nine months ended September 30, 2001, the Company incurred integration expense in conjunction with the program of $13.8 million and $49.8 million, respectively. The Company substantially completed its integration activities during 2001 and expects the majority of the remaining expenditures to be substantially completed by December 31, 2002.

The following illustrates activity related to the IDP restructuring reserve:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	18,486	12,398	30,884
Cash expenditures	(13,267)	(6,712)	(19,979)
Net non-cash reduction	(2,817)	(2,567)	(5,384)
Balance at December 31, 2001	2,402	3,119	5,521
Cash expenditures	(269)	(112)	(381)
Balance at March 31, 2002	$ 2,133	$ 3,007	$ 5,140
Cash expenditures	(93)	(301)	(394)
Balance at June 30, 2002	$ 2,040	$ 2,706	$ 4,746
Cash expenditures	(193)	(214)	(407)
Net non-cash reduction	(455)	(510)	(965)
Balance at September 30, 2002	$ 1,392	$ 1,982	$ 3,374

LIQUIDITY AND CAPITAL RESOURCES

Cash generated by operations and borrowings available under the Company's existing revolving credit facility are its primary sources of short-term liquidity. Cash flows provided by operating activities in the third quarter of 2002 were $45.8 million, reflecting an improvement of $45.4 million compared with $0.4 million in the prior year. Cash flows provided by operating activities for the nine months ended September 30, 2002 were $125.9 million, reflecting an improvement of $198.5 million compared with a use of funds of $72.6 million in the prior year nine month period. Additionally, the Company's cash balance at September 30, 2002 was $32.8 million, an increase of $11.3 million from year-end 2001.

The improved operating cash flow in the current quarter and for the nine month period in 2002 reflects higher earnings due to lower interest expense, lower acquisition-related integration and restructuring costs and improved working capital utilization in 2002 compared with the prior year. In particular, accounts receivable collections have improved to where there were 78 days' sales outstanding at September 30, 2002 compared with 90 days' sales outstanding at September 30, 2001. Additionally, cash flow from operations in the second quarter of 2002 benefited from an approximate $23 million tax refund related to the utilization of net operating loss carrybacks under the new U.S. tax laws.

The Company believes cash flows from operating activities combined with availability under its existing revolving credit agreement will be sufficient to enable the Company to meet its cash flow needs for the next 12 months. However, cash flows from operations could be adversely affected by economic, political and other risks associated with sales of the Company's products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors.

Additionally during 2002, the Company generated $16.8 million of cash flow related to exercise of employee stock options, which are reflected in financing activities of the Consolidated Statement of Cash Flows.

Although no contributions are required in 2002, the Company expects to contribute a minimum of $15.5 million into its domestic pension plan funds during 2003. The funding is required primarily as a result of the decline in the value of the pension plan assets due to negative market returns over the past two years and an increase in the number of plan participants. See pages 33 and 37 for further discussion of pensions and impacts on other comprehensive income for 2002.

Capital expenditures were $7.1 million for the third quarter of 2002 and $21.9 million for the first nine months of 2002. This compares with $5.9 million for the third quarter of 2001 and $28.3 million for the first nine months of 2001. For each period, capital expenditures were invested in new and replacement machinery and equipment, information technology and, in 2001, IDP integration activities including structures and equipment required at receiving facilities. Cash proceeds from the disposal of fixed assets were $4.4 million for the first nine months of 2002 compared with $8.5 million in the prior

year. The disposals in both years relate primarily to the sale of facilities and equipment no longer being utilized.

PAYMENTS FOR ACQUISITIONS

On May 2, 2002, the Company completed its acquisition of Invensys plc's flow control division (IFC) for an aggregate purchase price of $535 million (the IFC Acquisition), subject to adjustment pursuant to the terms of the purchase and sale agreement. By acquiring IFC, one of the world's foremost manufacturers of valves, actuators and associated flow control products, Flowserve believes that it is the world's third largest manufacturer of valves. The Company financed the acquisition and associated transaction costs by issuing 9.2 million shares of common stock in April 2002 for net proceeds of approximately $276 million and through new borrowings under its senior secured credit facilities. The Company also used $40 million from the proceeds of the equity financing to reduce amounts then outstanding under the Company's revolving credit facility.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of the acquisition. These allocations include $78.3 million for intangibles and $230 million recorded as goodwill.

The purchase price allocation for the IFC Acquisition is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of IFC have been included in the consolidated statements of operations from the date of acquisition.

The Company regularly evaluates acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition is a critical consideration in any such evaluation.

FINANCING

SENIOR CREDIT FACILITIES

As of September 30, 2002, the Company's outstanding debt under its senior credit facilities consists of a revolving credit facility and Tranche A and Tranche C term loans, which were $0, $279.0 million and $650.5 million, respectively. The term loans require scheduled principal payments, which began on June 30, 2001 for the Tranche A loan and on September 30, 2002 for the Tranche C loan. In the third quarter of 2002, the Company made $18 million of mandatory and $70 million of non-mandatory principal repayments on the term loans.

During the second quarter of 2002, in connection with the IFC acquisition, the Company amended and restated its senior credit facilities, to provide for:

- an incremental Tranche A term loan in an aggregate principal amount of $95.3 million

- a new Tranche C term loan facility of $700 million, to be used to repay all of the existing Tranche B term loan facility of $468.8 million, repay $11.3 million of the existing Tranche A term loan, reduce the then outstanding balance on the revolving credit facility by $40 million, and provide funds to be used to finance the IFC acquisition.

As part of the amended and restated senior credit facility, several covenants were modified, including various financial ratios, primarily to allow for the IFC Acquisition. The senior credit facilities are collateralized by substantially all of the Company's domestic assets and a pledge of 65% of the stock of the foreign subsidiaries. As a result of repaying the Tranche B term loan facility during the second quarter of 2002, the Company recognized an extraordinary loss of $6.3 million, after tax consideration, for writing off deferred financing fees. As a result of $70 million of non-mandatory debt prepayments during the third quarter of 2002, deferred financing fees were written off and recognized as an extraordinary loss of $0.5 million, after tax consideration.

The scheduled principal payments of the term loans outstanding at September 30, 2002, which

were adjusted to reflect non-mandatory prepayments, are summarized as follows:

	($ in millions)
Remainder of 2002	--
2003	$ 71.5
2004	83.7
2005	89.0
2006	55.7
2007	93.6
2008	363.1
2009	181.6

The Company is required, under certain circumstances as defined in the credit facility, to use a percentage of excess cash generated from operations to reduce the outstanding principal of the term loans in the following year. No additional principal payments are due in 2002 under this provision.

The term loans bear floating interest rates based on LIBOR plus a borrowing spread, or the prime rate plus a borrowing spread, at the option of the Company. The borrowing spread for the senior credit facilities can increase or decrease based on the leverage ratio as defined in the credit facility agreement and on the Company's public debt ratings. At September 30, 2002, the interest rates on the term loans were 4.5625%, and 4.0625% relating to the Tranche A term loan facility, 6.1250% related to a Euro denominated portion of the Tranche A and 4.8750% and 4.5625% relating to the Tranche C term loan facility.

Under the senior credit facilities, the Company also has a $300 million revolving credit facility that expires in June 2006. The revolving credit facility also allows the Company to issue up to $200 million in letters of credit. During 2002, the Company made payments of $70 million on the revolving credit facility. Consequently, there were no amounts outstanding under the revolving credit facility at September 30, 2002, however, $42.1 million of letters of credit had been issued under the facility, which reduced borrowing capacity of the facility to $257.9 million.

SENIOR SUBORDINATED NOTES

At September 30, 2002, the Company had $186 million and EUR 63 million (equivalent to $62 million) of Senior Subordinated Notes outstanding.

The notes were issued during 2000 by the Company and its Dutch subsidiary, Flowserve Finance B.V. At the date of issuance, the Senior Subordinated Notes, due in August 2010, resulted in proceeds of $285.9 million (U.S. dollar Notes) and EUR 98.6 million (Euro Notes), which then equated to $89.2 million. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and of Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and of Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries and, in the case of the Euro Notes, by the Company. The Senior Subordinated Notes were originally issued at a discount to yield 12.5%, but bear interest at 12.25%. Approximately one-third of these Senior Subordinated Notes were repurchased at a premium in 2001 utilizing proceeds of an equity offering. Beginning in 2005, these Senior Subordinated Notes become callable at a fixed redemption price, and can also be redeemed by the Company under certain circumstances.

COVENANT COMPLIANCE

The provisions of the Company's senior credit facilities require it to meet or exceed specified defined financial covenants, including a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of these and other debt agreements generally limit or restrict indebtedness, liens, sale and leaseback transactions, asset sales, and payment of dividends, capital expenditures, and other activities. As of September 30, 2002, the Company was in compliance with all covenants under its debt facilities.

The Company complied with its financial covenants as follows:

- leverage ratio was 3.6 compared with a maximum of 4.0
- interest coverage ratio was 3.4 compared with a minimum of 2.25
- fixed charge ratio was 1.7 compared with a minimum of 1.1

While the Company expects to comply with such covenants in the future, there can be no assurance that it will do so.

At September 30, 2002, net debt was 60.5% of the Company's capital structure compared with 61.1% at June 30, 2002 and 71.3% at December 31, 2001. The ratio decreased due to the impact of the common stock offering, an increase in shareholders' equity resulting from improved earnings and favorable currency translation, repayments of term loans and a reduction in revolving credit borrowings.

Although the ratio has improved over the past year, the Company has significant levels of indebtedness relative to shareholders' equity. While this ratio is not necessarily indicative of the Company's ability to raise funds, its level of indebtedness may increase its vulnerability to adverse economic and industry conditions, may require it to dedicate a substantial portion of cash flow from operating activities to payments on the indebtedness and could limit its ability to borrow additional funds and/or raise additional capital. While the IFC Acquisition increased the absolute level of indebtedness, the Company believes that its ability to service its debt, as measured by various ratios, has improved due to IFC's level of earnings and cash flow generation.

RECENT ACCOUNTING DEVELOPMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

Generally, this pronouncement requires companies to recognize the fair value of liabilities for retiring their facilities at the point that legal obligations associated with their retirement are incurred, with an offsetting increase to the carrying value of the facility. The expense associated with the retirement becomes a component of a facility's depreciation, which is recognized over its useful life.

Although SFAS No. 143 becomes effective for the Company on January 1, 2003, the Company does not believe the adoption will have a significant effect on its consolidated financial position or results of operations due to limited abandonment and retirement obligations associated with its facilities.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The most significant impact of SFAS 145 is to eliminate the requirement that gains and losses from the extinguishment of debt be classified as an extraordinary item unless these items are infrequent and unusual in nature. SFAS 145 is effective for the Company on January 1, 2003. Upon adoption of SFAS 145, the Company will reclassify its previously reported extraordinary items, which relate to early extinguishment of debt, as a component of earnings before income taxes.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized initially at fair value when the liability is incurred. Under current accounting rules, costs to exit or dispose of an activity are generally recognized at the date that the exit or disposal plan has been committed to and communicated. SFAS No. 146 is effective for the Company on January 1, 2003 and will be applied on a prospective basis.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Report on Form 10-Q and other written reports and oral statements made from time-to-time by the Company contain various forward-looking statements and include assumptions about the Company's future financial and market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: changes in the financial markets and the availability of capital; changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies; the Company's ability to integrate past and future acquisitions into its management and operations; political risks, military actions or trade embargoes affecting customer markets, including the possibility of a war in Iraq with its potential impact on Middle Eastern markets and global oil producers: the health of the petroleum, chemical, power and water industries; economic conditions and the extent of economic growth in areas inside and outside the United States; unanticipated difficulties or costs associated with the implementation of systems, including software; the Company's relative geographical profitability and its impact on the Company's utilization of foreign tax credits; the recognition of expenses associated with adjustments to realign the combined Company and IFC facilities and other capabilities with its strategic and business conditions, including, without limitation, expenses incurred in restructuring the Company's operations to incorporate IFC facilities; the Company's ability to meet the financial covenants and other requirements of its financing agreements; repercussions from the terrorist attacks of September 11, 2001, and the response of the United States to those attacks; technological developments in the Company's products as compared with those of its competitors; changes in prevailing interest rates and the effective interest costs which the Company bears; and adverse changes in the regulatory climate and other legal obligations imposed on the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

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

The Company's earnings are impacted by changes in short-term interest rates as a result of borrowings under its Credit Facility, which bear interest based on floating rates. At September 30, 2002, after the effect of its interest rate swaps, the Company had approximately $789.2 million of variable rate debt obligations outstanding with a weighted average interest rate of 4.67%. A hypothetical change of 100-basis points in the interest rate for these borrowings, assuming constant variable rate debt levels, would have changed interest expense by approximately $2.0 million for the quarter ended September 30, 2002.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments including interest rate swaps, but it expects all counterparties to meet their obligations given their creditworthiness. As of September 30, 2002, the Company had $150.0 million of notional amount in outstanding interest rate swaps with third parties with maturities through November 2006.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. These strategies also minimize potential gains from favorable exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. Based on the sensitivity analysis at September 30, 2002, a 10% adverse change in the foreign currency exchange rates could impact the Company's results of operations by $2.6 million. The primary currencies to which

the Company has exposure are the Euro, British pound, Canadian dollar, Mexican peso, Japanese yen, Singapore dollar, Brazilian real, Australian dollar, Argentine peso and Venezuelan bolivar.

Exposures are hedged primarily with foreign currency forward contracts that generally have maturity dates less than one year. Company policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, the Company does not enter into foreign currency contracts for trading purposes where the objective would be to generate profits. As of September 30, 2002, the Company had an U.S. dollar equivalent of $58.3 million in outstanding forward contracts with third parties.

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

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as required by the rules of the Securities and Exchange Commission, within 90 days of the filing date of this report and have determined that such controls and procedures effectively alert them to material information relating to the Company and its consolidated subsidiaries that is required to be included in the Company's periodic public filings.

INTERNAL CONTROLS

The Company's CEO and CFO have primary responsibility for the accuracy of the financial information that is presented in this report. To satisfy their responsibility for financial reporting, they have established internal controls and procedures which they believe are adequate to provide reasonable assurance that the Company's assets are protected from loss. These internal controls are reviewed by the Company's management in order to ensure compliance and by the independent accountants to determine the nature, timing and extent of their audit work. In addition, the Company's Audit/Finance Committee, which is composed entirely of outside directors, meets regularly with management and the independent accountants to review accounting, auditing and financial matters. The Audit/Finance Committee and the independent accountants have free access to each other, with or without management being present.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the CEO's and CFO's most recent evaluation. Additionally, there have been no corrective actions required with regard to significant deficiencies or material weaknesses of internal controls.

PART II OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the third quarter of 2002, the Company issued 20,200 shares of restricted common stock pursuant to an exemption from registration under Section 4 (2) of the Securities Act of 1933. These shares were issued for the benefit of outside directors and are subject to restrictions on transfer and to vesting schedules.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits 99.1 and 99.2

Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

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

Current Report on Form 8-K filed on August 14, 2002, pursuant to SEC Order No. 4-460 requiring the CEO and CFO of the nation's largest 947 publicly-traded companies to submit one-time sworn statements attesting to the accuracy of their company's recent SEC filings.

Current Report on Form 8-K filed on September 27, 2002, whereby the Company announced explanatory information concerning compliance with its loan covenants, clarified its optional debt repayment and revised anticipated financial information for the third and fourth quarters of 2002.

SIGNATURE

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

FLOWSERVE CORPORATION
(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: November 14, 2002

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

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

(1) I have reviewed this quarterly report on Form 10-Q of Flowserve Corporation;

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

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

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

a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

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

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

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

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ C. Scott Greer

C. Scott Greer
Chief Executive Officer

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

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

(1) I have reviewed this quarterly report on Form 10-Q of Flowserve Corporation;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such

statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

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

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

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

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

EXHIBITS INDEX

Exhibit Number	Description
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 99.1

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

In connection with the Quarterly Report of Flowserve Corporation (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Scott Greer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ C. Scott Greer

C. Scott Greer
Chief Executive Officer
November 14, 2002

EXHIBIT 99.2

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

In connection with the Quarterly Report of Flowserve Corporation (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Renee J. Hornbaker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer
November 14, 2002