

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ to ____.

Commission File No. 1-13179

FLOWERVE CORPORATION

(Exact name of registrant as specified in its charter)



New York

31-0267900

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

5215 N. O'Connor Blvd., Suite 2300, Irving, Texas

75039

(Address of principal executive offices)

(Zip Code)

(972) 443-6500

(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: N/A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$1.25 Par Value	FLS	New York Stock Exchange
1.25% Senior Notes due 2022	FLS22A	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 23, 2020 there were 130,159,720 shares of the issuer's common stock outstanding.

FLOWERVE CORPORATION
FORM 10-Q
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)

	Three Months Ended June 30,	
	2020	2019
Sales	\$ 924,965	\$ 990,084
Cost of sales	(657,805)	(672,051)
Gross profit	267,160	318,033
Selling, general and administrative expense	(227,358)	(223,676)
Net earnings from affiliates	3,086	3,661
Operating income	42,888	98,018
Interest expense	(12,900)	(14,013)
Interest income	1,149	2,218
Other income (expense), net	(14,941)	(3,336)
Earnings before income taxes	16,196	82,887
Provision for income taxes	(5,409)	(22,413)
Net earnings, including noncontrolling interests	10,787	60,474
Less: Net earnings attributable to noncontrolling interests	(2,142)	(2,302)
Net earnings attributable to Flowserve Corporation	\$ 8,645	\$ 58,172
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 0.07	\$ 0.44
Diluted	0.07	0.44

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(Amounts in thousands)

	Three Months Ended June 30,	
	2020	2019
Net earnings, including noncontrolling interests	\$ 10,787	\$ 60,474
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$(1,188) and \$(1,492), respectively	15,084	(2,848)
Pension and other postretirement effects, net of taxes of \$(444) and \$(222), respectively	1,758	2,186
Cash flow hedging activity	44	43
Other comprehensive income (loss)	16,886	(619)
Comprehensive income (loss), including noncontrolling interests	27,673	59,855
Comprehensive income (loss) attributable to noncontrolling interests	(2,079)	(2,290)
Comprehensive income (loss) attributable to Flowserve Corporation	\$ 25,594	\$ 57,565

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)

	Six Months Ended June 30,	
	2020	2019
Sales	\$ 1,819,422	\$ 1,880,135
Cost of sales	(1,286,285)	(1,268,026)
Gross profit	533,137	612,109
Selling, general and administrative expense	(470,980)	(428,830)
Net earnings from affiliates	6,283	5,970
Operating income	68,440	189,249
Interest expense	(25,863)	(28,044)
Interest income	2,898	4,241
Other income (expense), net	8,521	(6,476)
Earnings before income taxes	53,996	158,970
Provision for income taxes	(41,719)	(38,999)
Net earnings, including noncontrolling interests	12,277	119,971
Less: Net earnings attributable to noncontrolling interests	(4,242)	(4,538)
Net earnings attributable to Flowserve Corporation	\$ 8,035	\$ 115,433
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 0.06	\$ 0.88
Diluted	0.06	0.88

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Amounts in thousands)

	Six Months Ended June 30,	
	2020	2019
Net earnings, including noncontrolling interests	\$ 12,277	\$ 119,971
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$5,974 and \$1,190, respectively	(66,269)	4,097
Pension and other postretirement effects, net of taxes of \$(842) and \$(429), respectively	8,067	3,403
Cash flow hedging activity	98	105
Other comprehensive income (loss)	(58,104)	7,605
Comprehensive income (loss), including noncontrolling interests	(45,827)	127,576
Comprehensive income (loss) attributable to noncontrolling interests	(5,018)	(5,203)
Comprehensive income (loss) attributable to Flowserve Corporation	\$ (50,845)	\$ 122,373

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORAION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except par value)

	June 30,	December 31,
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 561,705	\$ 670,980
Accounts receivable, net of allowance for expected credit losses of \$72,084 and \$53,412, respectively	759,381	795,538
Contract assets, net of allowance for expected credit losses of \$3,010 at June 30, 2020	309,149	272,914
Inventories, net	684,431	660,837
Prepaid expenses and other	115,889	105,101
Total current assets	2,430,555	2,505,370
Property, plant and equipment, net of accumulated depreciation of \$1,034,893 and \$1,013,207, respectively	541,768	572,175
Operating lease right-of-use assets, net	173,212	186,218
Goodwill	1,187,735	1,193,010
Deferred taxes	31,119	54,879
Other intangible assets, net	172,709	180,805
Other assets, net of allowance for expected credit losses of \$98,971 and \$101,439, respectively	218,604	227,185
Total assets	\$ 4,755,702	\$ 4,919,642
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 428,856	\$ 447,582
Accrued liabilities	401,041	401,385
Contract liabilities	214,135	216,541
Debt due within one year	9,058	11,272
Operating lease liabilities	35,648	36,108
Total current liabilities	1,088,738	1,112,888
Long-term debt due after one year	1,367,478	1,365,977
Operating lease liabilities	138,735	151,523
Retirement obligations and other liabilities	470,400	473,295
Shareholders' equity:		
Common shares, \$1.25 par value	220,991	220,991
Shares authorized – 305,000		
Shares issued – 176,793		
Capital in excess of par value	499,152	501,045
Retained earnings	3,643,868	3,695,862
Treasury shares, at cost – 46,873 and 46,262 shares, respectively	(2,064,302)	(2,051,583)
Deferred compensation obligation	6,036	8,334
Accumulated other comprehensive loss	(643,173)	(584,292)
Total Flowserve Corporation shareholders' equity	1,662,572	1,790,357
Noncontrolling interests	27,779	25,602
Total equity	1,690,351	1,815,959
Total liabilities and equity	\$ 4,755,702	\$ 4,919,642

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORAION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Total Flowserve Corporation Shareholders' Equity

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
	(Amounts in thousands)									
Balance — April 1, 2020	176,793	\$ 220,991	\$ 497,721	\$ 3,661,579	(47,002)	\$ (2,069,063)	\$ 8,324	\$ (660,122)	\$ 25,995	\$ 1,685,425
Stock activity under stock plans	—	—	(2,733)	—	129	4,761	(2,288)	—	—	(260)
Stock-based compensation	—	—	4,164	—	—	—	—	—	—	4,164
Net earnings	—	—	—	8,645	—	—	—	—	2,142	10,787
Cash dividends declared	—	—	—	(26,356)	—	—	—	—	—	(26,356)
Repurchases of common shares	—	—	—	—	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	16,949	(63)	16,886
Other, net	—	—	—	—	—	—	—	—	(295)	(295)
Balance — June 30, 2020	<u>176,793</u>	<u>\$ 220,991</u>	<u>\$ 499,152</u>	<u>\$ 3,643,868</u>	<u>(46,873)</u>	<u>\$ (2,064,302)</u>	<u>\$ 6,036</u>	<u>\$ (643,173)</u>	<u>\$ 27,779</u>	<u>\$ 1,690,351</u>
Balance — April 1, 2019	\$ 176,793	\$ 220,991	\$ 487,673	\$ 3,575,014	(45,969)	\$ (2,037,586)	\$ 7,107	\$ (566,400)	\$ 21,187	\$ 1,707,986
Stock activity under stock plans	—	—	(2,382)	—	26	729	—	—	—	(1,653)
Stock-based compensation	—	—	7,746	—	—	—	—	—	—	7,746
Net earnings	—	—	—	58,172	—	—	—	—	2,302	60,474
Cash dividends declared	—	—	—	(25,258)	—	—	—	—	—	(25,258)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(607)	(12)	(619)
Other, net	—	—	—	—	—	—	1,112	—	—	1,112
Balance — June 30, 2019	<u>176,793</u>	<u>\$ 220,991</u>	<u>\$ 493,037</u>	<u>\$ 3,607,928</u>	<u>(45,943)</u>	<u>\$ (2,036,857)</u>	<u>\$ 8,219</u>	<u>\$ (567,007)</u>	<u>\$ 23,477</u>	<u>\$ 1,749,788</u>

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORAION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Total Flowserve Corporation Shareholders' Equity

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
	(Amounts in thousands)									
Balance — January 1, 2020	176,793	\$ 220,991	\$ 501,045	\$ 3,695,862	(46,262)	\$ (2,051,583)	\$ 8,334	\$ (584,292)	\$ 25,602	\$ 1,815,959
ASU No. 2016-13 - Measurement of Credit Losses on Financial Instruments (Topic 326)	—	—	—	(7,291)	—	—	—	—	—	(7,291)
Stock activity under stock plans	—	—	(20,368)	—	446	19,393	(2,298)	—	—	(3,273)
Stock-based compensation	—	—	18,475	—	—	—	—	—	—	18,475
Net earnings	—	—	—	8,035	—	—	—	—	4,242	12,277
Cash dividends declared	—	—	—	(52,738)	—	—	—	—	—	(52,738)
Repurchases of common shares	—	—	—	—	(1,057)	(32,112)	—	—	—	(32,112)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(58,881)	777	(58,104)
Other, net	—	—	—	—	—	—	—	—	(2,842)	(2,842)
Balance — June 30, 2020	176,793	\$ 220,991	\$ 499,152	\$ 3,643,868	(46,873)	\$ (2,064,302)	\$ 6,036	\$ (643,173)	\$ 27,779	\$ 1,690,351
Balance — January 1, 2019	176,793	\$ 220,991	\$ 494,551	\$ 3,543,007	(46,237)	\$ (2,049,404)	\$ 7,117	\$ (573,947)	\$ 18,465	\$ 1,660,780
Stock activity under stock plans	—	—	(16,869)	—	294	12,547	—	—	—	(4,322)
Stock-based compensation	—	—	15,355	—	—	—	—	—	—	15,355
Net earnings	—	—	—	115,433	—	—	—	—	4,538	119,971
Cash dividends declared	—	—	—	(50,512)	—	—	—	—	—	(50,512)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	6,940	665	7,605
Other, net	—	—	—	—	—	—	1,102	—	(191)	911
Balance — June 30, 2019	176,793	\$ 220,991	\$ 493,037	\$ 3,607,928	(45,943)	\$ (2,036,857)	\$ 8,219	\$ (567,007)	\$ 23,477	\$ 1,749,788

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)

	Six Months Ended June 30,	
	2020	2019
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 12,277	\$ 119,971
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	43,350	46,666
Amortization of intangible and other assets	6,136	8,003
Stock-based compensation	18,475	15,354
Foreign currency, asset write downs and other non-cash adjustments	21,739	(20,206)
Change in assets and liabilities:		
Accounts receivable, net	858	(13,445)
Inventories, net	(36,575)	(47,610)
Contract assets, net	(44,229)	12,432
Prepaid expenses and other assets, net	(9,341)	4,949
Accounts payable	(9,139)	(20,660)
Contract liabilities	3,468	6,744
Accrued liabilities and income taxes payable	5,787	(56,935)
Retirement obligations and other	13,618	(6,824)
Net deferred taxes	(5,193)	911
Net cash flows provided (used) by operating activities	21,231	49,350
Cash flows – Investing activities:		
Capital expenditures	(31,971)	(25,267)
Proceeds from disposal of assets and other	10,810	40,302
Net cash flows provided (used) by investing activities	(21,161)	15,035
Cash flows – Financing activities:		
Payments on long-term debt	—	(30,000)
Proceeds under other financing arrangements	1,477	1,699
Payments under other financing arrangements	(2,497)	(5,124)
Repurchases of common shares	(32,112)	—
Payments related to tax withholding for stock-based compensation	(3,850)	(3,441)
Payments of dividends	(52,054)	(49,772)
Other	(2,845)	(190)
Net cash flows provided (used) by financing activities	(91,881)	(86,828)
Effect of exchange rate changes on cash	(17,464)	(770)
Net change in cash and cash equivalents	(109,275)	(23,213)
Cash and cash equivalents at beginning of period	670,980	619,683
Cash and cash equivalents at end of period	\$ 561,705	\$ 596,470

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORAION
(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of June 30, 2020, the related condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2020 and 2019, the condensed consolidated statements of stockholders' equity for the three and six months ended June 30, 2020 and 2019 and the condensed consolidated statements of cash flows for the six months ended June 30, 2020 and 2019 of Flowserve Corporation are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for fair statement of such condensed consolidated financial statements have been made. Where applicable, prior period information has been updated to conform to current year presentation.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 ("Quarterly Report") are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2019 ("2019 Annual Report").

Coronavirus Pandemic ("COVID-19") and Oil and Gas Market - During the first half of 2020, we have been challenged by macroeconomics and global economic impacts based on the disruption and uncertainties caused by COVID-19 and the emanating impacts of the pandemic on pricing and dampened demand for oil, further resulting in instability and volatility in oil commodity prices. To date the COVID-19 pandemic has had widespread implications worldwide and has caused substantial economic uncertainty and challenging operational conditions.

The preparation of our condensed consolidated financial statements requires us to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, judgments and methodologies on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable, the results of which form the basis for making judgments about the carrying values of assets, liabilities and equity and the amount of revenues and expenses. The full extent to which the COVID-19 pandemic directly or indirectly impacts our business, results of operations and financial condition, including sales, expenses, our allowance for expected credit losses, stock based compensation, the carrying value of our goodwill and other long-lived assets, financial assets, and valuation allowances for tax assets, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat it, as well as the economic impact on local, regional, national and international customers, suppliers and markets. We have made estimates of the impact of COVID-19 within our financial statements and there may be changes to those estimates in the near to mid-term as new information becomes available. Actual results may differ from these estimates.

Accounting Developments

Pronouncements Implemented

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" ("CECL"). The ASU requires, among other things, the use of a new current expected credit loss model in order to determine an allowance for expected credit losses with respect to financial assets and instruments held. The CECL model requires that we estimate the lifetime of an expected credit loss for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. On January 1, 2020, we adopted the ASU on a prospective basis to determine our allowance for credit losses in accordance with the requirements of Topic 326, and we modified our accounting policy and processes to facilitate this approach. As a result of the adoption of the ASU, we recorded a noncash cumulative effect after-tax adjustment to retained earnings of \$7.3 million on our opening condensed consolidated balance sheet.

Our primary exposure to financial assets that are within the scope of CECL are trade receivables and contract assets. For these financial assets, we record an allowance for expected credit losses that, when deducted from the gross asset balance, presents the net amount expected to be collected. We estimate the allowance based on an aging schedule and according to historical losses as determined from our billings and collections history. Additionally, we adjust the allowance for factors that are specific to our customers' credit risk such as financial difficulties, liquidity issues, insolvency, and country and political risk. We also consider both the current and forecasted direction of macroeconomic conditions at the reporting date. The CECL

model requires consideration of reasonable and supportable forecasts of future economic conditions in the estimate of expected credit losses.

We adjust the allowance and recognize adjustments in the income statement each period. Trade receivables are written off against the allowance in the period when the receivable is deemed to be uncollectible. Subsequent recoveries of amounts previously written off are reflected as a reduction to credit impairment losses in the income statement.

Our allowance for expected credit losses for short-term receivables as of June 30, 2020, was \$72.1 million, compared to \$53.4 million as of December 31, 2019. The six months of activity included \$6.9 million for the adoption of the CECL model at January 1, 2020 and \$11.8 million for current period adjustments.

Our long-term receivables, included in other assets, net, represent receivables with collection periods longer than 12 months and the balance primarily consists of amounts to be collected from insurance companies and fully-reserved receivables associated with the national oil company in Venezuela. As of June 30, 2020, we had \$110.7 million of long-term receivables, compared to \$118.5 million as of December 31, 2019. Our allowance for expected credit losses for long-term receivables as of June 30, 2020 was \$99.0 million, compared to \$101.4 million as of December 31, 2019.

We have exposure to credit losses from off-balance sheet exposures, such as financial guarantees and standby letters of credit, where we believe the risk of loss is immaterial to our financial statements as of June 30, 2020.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU allow companies to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The amendments of the ASU are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Our adoption of ASU No. 2017-04 effective January 1, 2020 did not have an impact on our condensed consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments of the ASU modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosure requirements for assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to the financial statements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 permitted for the new disclosures. The removed and modified disclosures were adopted on a retrospective basis and the new disclosures were adopted on a prospective basis. Our adoption of ASU No. 2018-13 effective January 1, 2020 did not have an impact on our disclosures.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The ASU addresses how entities should account for costs associated with implementing a cloud computing arrangement that is considered a service contract. Per the amendments of the ASU, implementation costs incurred in a cloud computing arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain software for internal use as prescribed by guidance in ASC 350-40. The ASU requires that implementation costs incurred in a cloud computing arrangement be capitalized rather than expensed. Further, the ASU specifies the method for the amortization of costs incurred during implementation, and the manner in which the unamortized portion of these capitalized implementation costs should be evaluated for impairment. The ASU also provides guidance on how to present such implementation costs in the financial statements and also creates additional disclosure requirements. The amendments are effective for fiscal years beginning after December 15, 2019. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Our adoption of ASU No. 2018-15 effective January 1, 2020 on a prospective basis did not have a material impact on our condensed consolidated financial condition and results of operations.

In October 2018, the FASB issued ASU No. 2018-17, "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities ("VIEs")." The standard reduces the cost and complexity of financial reporting associated with VIEs. The new standard amends the guidance for determining whether a decision-making fee is a VIE. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety as currently required in U.S. Generally Accepted Accounting Principles ("GAAP"). The amendments of this ASU are effective for fiscal years beginning after December 15, 2019. Our adoption of ASU No. 2018-17 effective January 1, 2020 did not have an impact on our condensed consolidated financial condition and results of operations.

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606." The ASU clarifies the interaction between the guidance for certain collaborative arrangements and ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which we adopted

January 1, 2018. The amendments of the ASU provide guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within ASU No. 2014-09. The ASU also provides more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants. Parts of the collaborative arrangement that are not in the purview of the revenue recognition standard should be presented separately. The amendments are effective for fiscal years beginning after December 15, 2019. Our adoption of ASU No. 2018-18 effective January 1, 2020 did not have an impact on our condensed consolidated financial condition and results of operations.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The ASU intends to simplify various aspects related to accounting for income taxes and removes certain exceptions to the general principles in the standard. Additionally, the ASU clarifies and amends existing guidance to improve consistent application of its requirements. We early adopted ASU No. 2019-12 effective January 1, 2020 on a prospective basis and the adoption did not have an impact on our condensed consolidated financial condition and results of operations.

Pronouncements Not Yet Implemented

In August 2018, the FASB issued ASU No. 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans." The ASU amends the disclosure requirements by adding, clarifying, or removing certain disclosures for sponsor defined benefit pension or other postretirement plans. The amendments are effective for fiscal years ending after December 15, 2020 and the amendments should be applied retrospectively to all periods presented. We are currently evaluating the impact of ASU No. 2018-14 and we anticipate that our adoption of this ASU will not have an impact on our disclosures.

In March of 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of The Effects of Reference Rate Reform on Financial Reporting." The ASU provides guidance designed to enable the process for migrating away from reference rates such as the London Interbank Offered Rate ("LIBOR") and others to new reference rates. Further, the amendments of the ASU provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The amendments are effective as of March 12, 2020 through December 31, 2022 and should be applied prospectively to all periods presented. We have evaluated the impact of ASU No. 2020-04 and we anticipate that our adoption of this ASU will not have an impact on our condensed consolidated financial condition and results of operations.

2. Revenue Recognition

The majority of our revenues relate to customer orders that typically contain a single commitment of goods or services which have lead times under a year. Longer lead time, more complex contracts with our customers typically have multiple commitments of goods and services, including any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services and parts related to the performance of such products. Control transfers over time when the customer is able to direct the use of and obtain substantially all of the benefits of our work as we perform.

Our primary method for recognizing revenue over time is the percentage of completion ("POC") method. Revenue from products and services transferred to customers over time accounted for approximately 22% and 19% total revenue for the three month periods ended June 30, 2020 and 2019, respectively, and 22% and 18% for the six month period ended June 30, 2020 and 2019, respectively. If control does not transfer over time, then control transfers at a point in time. We recognize revenue at a point in time at the level of each performance obligation based on the evaluation of certain indicators of control transfer, such as title transfer, risk of loss transfer, customer acceptance and physical possession. Revenue from products and services transferred to customers at a point in time accounted for approximately 78% and 81% of total revenue for the three month period ended June 30, 2020 and 2019, respectively, and 78% and 82% for the six month period ended June 30, 2020 and 2019, respectively. Refer to Note 2 to our consolidated financial statements included in our 2019 Annual Report for a more comprehensive discussion of our policies and accounting practices of revenue recognition.

Disaggregated Revenue

We conduct our operations through two business segments based on the type of product and how we manage the business:

- Flowserve Pump Division ("FPD") for custom, highly-engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts and related services; and
- Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our revenue sources are derived from our original equipment manufacturing and our aftermarket sales and services. Our original equipment revenues are generally related to originally designed, manufactured, distributed and installed equipment that can range from pre-configured, short-cycle products to more customized, highly-engineered equipment ("Original Equipment"). Our aftermarket sales and services are derived from sales of replacement equipment, as well as maintenance, advanced diagnostic, repair and retrofitting services ("Aftermarket"). Each of our two business segments generate Original Equipment and Aftermarket revenues.

The following table presents our customer revenues disaggregated by revenue source:

	Three Months Ended June 30, 2020		
	FPD	FCD	Total
(Amounts in thousands)			
Original Equipment	\$ 271,465	\$ 191,311	\$ 462,776
Aftermarket	402,089	60,100	462,189
	<u>\$ 673,554</u>	<u>\$ 251,411</u>	<u>\$ 924,965</u>
	Three Months Ended June 30, 2019		
	FPD	FCD	Total
Original Equipment	\$ 243,625	\$ 248,927	\$ 492,552
Aftermarket	430,341	67,191	497,532
	<u>\$ 673,966</u>	<u>\$ 316,118</u>	<u>\$ 990,084</u>

Six Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Total
Original Equipment	\$ 524,197	\$ 390,874	\$ 915,071
Aftermarket	784,482	119,869	904,351
	<u>\$ 1,308,679</u>	<u>\$ 510,743</u>	<u>\$ 1,819,422</u>

Six Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Total
Original Equipment	\$ 449,429	\$ 462,973	\$ 912,402
Aftermarket	833,296	134,437	967,733
	<u>\$ 1,282,725</u>	<u>\$ 597,410</u>	<u>\$ 1,880,135</u>

Our customer sales are diversified geographically. The following table presents our revenues disaggregated by geography, based on the shipping addresses of our customers:

Three Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Total
North America(1)	\$ 269,610	\$ 106,737	\$ 376,347
Latin America(1)	46,909	6,905	53,814
Middle East and Africa	96,740	21,687	118,427
Asia Pacific	128,102	64,499	192,601
Europe	132,193	51,583	183,776
	<u>\$ 673,554</u>	<u>\$ 251,411</u>	<u>\$ 924,965</u>

Three Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Total
North America(1)	\$ 269,737	\$ 134,715	\$ 404,452
Latin America(1)	45,771	10,093	55,864
Middle East and Africa	87,344	22,875	110,219
Asia Pacific	124,206	83,189	207,395
Europe	146,908	65,246	212,154
	<u>\$ 673,966</u>	<u>\$ 316,118</u>	<u>\$ 990,084</u>

Six Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Total
North America (1)	\$ 537,135	\$ 229,862	\$ 766,997
Latin America(1)	89,096	12,415	101,511
Middle East and Africa	193,908	48,352	242,260
Asia Pacific	240,557	120,000	360,557
Europe	247,983	100,114	348,097
	<u>\$ 1,308,679</u>	<u>\$ 510,743</u>	<u>\$ 1,819,422</u>

Six Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Total
North America (1)	\$ 517,506	\$ 269,874	\$ 787,380
Latin America(1)	83,373	15,893	99,266
Middle East and Africa	161,710	45,763	207,473
Asia Pacific	238,154	140,401	378,555
Europe	281,982	125,479	407,461
	<u>\$ 1,282,725</u>	<u>\$ 597,410</u>	<u>\$ 1,880,135</u>

(1) North America represents the United States and Canada; Latin America includes Mexico.

On June 30, 2020, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately \$548 million. We estimate recognition of approximately \$273 million of this amount as revenue in the remainder of 2020 and an additional \$275 million in 2021 and thereafter.

Contract Balances

We receive payment from customers based on a contractual billing schedule and specific performance requirements as established in our contracts. We record billings as accounts receivable when an unconditional right to consideration exists. A contract asset represents revenue recognized in advance of our right to receive payment under the terms of a contract. A contract liability represents our right to receive payment in advance of revenue recognized for a contract.

The following tables present beginning and ending balances of contract assets and contract liabilities, current and long-term, for the six months ended June 30, 2020 and 2019:

(Amounts in thousands)	Contract Assets, net (Current)	Long-term Contract Assets, net(1)	Contract Liabilities (Current)	Long-term Contract Liabilities(2)
Beginning balance, January 1, 2020	\$ 272,914	9,280	\$ 216,541	\$ 1,652
Revenue recognized that was included in contract liabilities at the beginning of the period	—	—	(134,440)	(646)
Revenue recognized in the period in excess of billings	386,250	511	—	—
Billings arising during the period in excess of revenue recognized	—	—	141,156	—
Amounts transferred from contract assets to receivables	(335,505)	(93)	—	—
Currency effects and other, net	(14,510)	(6,689)	(9,122)	(31)
Ending balance, June 30, 2020	<u>\$ 309,149</u>	<u>\$ 3,009</u>	<u>\$ 214,135</u>	<u>\$ 975</u>

(Amounts in thousands)	Contract Assets, net (Current)	Long-term Contract Assets, net(1)	Contract Liabilities (Current)	Long-term Contract Liabilities(2)
Beginning balance, January 1, 2019	\$ 228,579	\$ 10,967	\$ 202,458	\$ 1,370
Revenue recognized that was included in contract liabilities at the beginning of the period	—	—	(108,769)	—
Revenue recognized in the period in excess of billings	361,384	—	—	—
Billings arising during the period in excess of revenue recognized	—	—	119,726	—
Amounts transferred from contract assets to receivables	(372,398)	(2,444)	—	—
Currency effects and other, net	(2,125)	45	(3,726)	(360)
Ending balance, June 30, 2019	<u>\$ 215,440</u>	<u>\$ 8,568</u>	<u>\$ 209,689</u>	<u>\$ 1,010</u>

(1) Included in other assets, net.

(2) Included in retirement obligations and other liabilities.

3. Leases

We have operating and finance leases for certain manufacturing facilities, offices, service and quick response centers, machinery, equipment and automobiles. Our leases have remaining lease terms of up to 33 years. The terms and conditions of our leases may include options to extend or terminate the lease which are considered and included in the lease term when these options are reasonably certain of exercise.

We determine if a contract is (or contains) a lease at inception by evaluating whether the contract conveys the right to control the use of an identified asset. For all classes of leased assets, we have elected the practical expedient to account for any non-lease components in the contract together with the related lease component in the same unit of account. For lease contracts containing more than one lease component, we allocate the contract consideration to each of the lease components on the basis of relative standalone prices in order to identify the lease payments for each lease component.

Right-of-use ("ROU") assets and lease liabilities are recognized in our condensed consolidated balance sheets at the commencement date based on the present value of remaining lease payments over the lease term. Additionally, ROU assets include any lease payments made at or before the commencement date, as well as any initial direct costs incurred, and are reduced by any lease incentives received. As most of our operating leases do not provide an implicit rate, we apply our incremental borrowing rate to determine the present value of remaining lease payments. Our incremental borrowing rate is determined based on information available at the commencement date of the lease.

Operating leases are included in operating lease ROU assets, net and operating lease liabilities in our condensed consolidated balance sheets. Finance leases are included in property plant and equipment, debt due within one year and long-term debt due after one year in our condensed consolidated balance sheets.

We have certain lease contracts with terms and conditions that provide for variability in the payment amount based on changes in facts or circumstances occurring after the commencement date. These variable lease payments are recognized in our condensed consolidated income statements as the obligation is incurred.

We have certain lease contracts where we provide a guarantee to the lessor that the value of an underlying asset will be at least a specified amount at the end of the lease. Estimated amounts expected to be paid for residual value guarantees are included in operating lease liabilities and ROU assets, net.

We had \$34.2 million and \$34.7 million of legally binding minimum lease payments for operating leases signed but not yet commenced as of June 30, 2020 and December 31, 2019, respectively. We did not have material subleases, leases that imposed significant restrictions or covenants, material related party leases or sale-leaseback arrangements.

Other information related to our leases is as follows:

(Amounts in thousands)	June 30, 2020	December 31, 2019
Operating Leases:		
ROU assets recorded under operating leases	\$ 223,839	\$ 220,865
Accumulated amortization associated with operating leases	(50,627)	(34,647)
Total operating leases ROU assets, net	<u>\$ 173,212</u>	<u>\$ 186,218</u>
Liabilities recorded under operating leases (current)	\$ 35,648	\$ 36,108
Liabilities recorded under operating leases (non-current)	138,735	151,523
Total operating leases liabilities	<u>\$ 174,383</u>	<u>\$ 187,631</u>
Finance Leases:		
ROU assets recorded under finance leases	\$ 20,126	\$ 19,606
Accumulated depreciation associated with finance leases	(8,421)	(7,551)
Total finance leases ROU assets, net(1)	<u>\$ 11,705</u>	<u>\$ 12,055</u>
Total finance leases liabilities(2)	<u>\$ 11,501</u>	<u>\$ 11,788</u>

The costs components of operating and finance leases are as follows:

(Amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating Lease Costs:				
Fixed lease expense(3)	\$ 14,072	\$ 14,797	\$ 28,542	\$ 30,006
Variable lease expense(3)	1,519	1,306	3,690	2,880
Total operating lease expense	<u>\$ 15,591</u>	<u>\$ 16,103</u>	<u>\$ 32,232</u>	<u>\$ 32,886</u>
Finance Lease Costs:				
Depreciation of finance lease ROU assets(3)	\$ 1,235	\$ 1,130	\$ 2,539	\$ 2,287
Interest on lease liabilities(4)	23	73	256	151
Total finance lease expense	<u>\$ 1,258</u>	<u>\$ 1,203</u>	<u>\$ 2,795</u>	<u>\$ 2,438</u>

(1) Included in property, plant and equipment, net of accumulated depreciation.

(2) Included in debt due within one year and long-term debt due after one year, accordingly.

(3) Included in cost of sales and selling, general and administrative expense, accordingly.

(4) Included in interest expense.

Supplemental cash flows information as of and for the six months ended:

	June 30,	
	2020	2019
(Amounts in thousands, except lease term and discount rate)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases(1)	\$ 36,067	\$ 26,448
Financing cash flows from finance leases(2)	2,026	2,297
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 13,964	11,983
Finance leases	3,143	6,006
Weighted average remaining lease term (in years)		
Operating leases	8 years	9 years
Finance leases	3 years	3 years
Weighted average discount rate (percent)		
Operating leases	4.5 %	4.5 %
Finance leases	3.5 %	3.8 %

(1) Included in our condensed consolidated statement of cash flows, operating activities, prepaid expenses and other assets, net and retirement obligations and other.

(2) Included in our condensed consolidated statement of cash flows, financing activities, payments under other financing arrangements.

Future undiscounted lease payments under operating and finance leases as of June 30, 2020 were as follows (amounts in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2020 (excluding the six months ended June 30, 2020)	\$ 21,733	\$ 3,836
2021	36,114	3,991
2022	29,428	2,697
2023	23,638	1,362
2024	18,420	330
Thereafter	79,872	54
Total future minimum lease payments	\$ 209,205	\$ 12,270
Less: Imputed interest	(34,822)	(769)
Total	\$ 174,383	\$ 11,501
Other current liabilities	\$ 35,648	\$ —
Operating lease liabilities	138,735	—
Debt due within one year	—	4,725
Long-term debt due after one year	—	6,776
Total	\$ 174,383	\$ 11,501

4. Stock-Based Compensation Plans

Effective January 1, 2020, our shareholders approved the Flowserve Corporation 2020 Long-Term Incentive Plan ("2020 Plan"). The 2020 Plan replaces and supersedes the Flowserve Corporation Equity and Incentive Compensation Plan ("2010 Plan") in its entirety. See Note 7 to our consolidated financial statements included in our 2019 Annual Report for additional information on the 2010 Plan. The 2020 Plan authorizes the issuance of 12,500,000 shares of our common stock in the form of restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), incentive stock options, non-statutory stock options, stock appreciation rights and bonus stock, in addition to any shares available for issuance or subject to forfeiture under the 2010 Plan as of its expiration on December 31, 2019. Of the shares of common stock authorized under the 2020 Plan and remaining shares under the 2010 Plan, 13,380,817 were available for issuance as of June 30, 2020. Restricted Shares primarily vest over a three year period. Restricted Shares granted to employees who retire and have achieved at least 55 years of age and 10 years of service continue to vest over the original vesting period ("55/10 Provision"). As of June 30, 2020, 114,943 stock options were outstanding, with a grant date fair value of \$2.0 million recognized over three years. As of June 30, 2020, compensation associated with these stock options was fully earned. The total fair value of stock options vested during both the three and six months ended June 30, 2020 was \$2.0 million, compared to no stock options vested during both the three and six months ended June 30, 2019. The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model. No stock options were granted during the six months ended June 30, 2020 and 2019.

Restricted Shares – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares, except for awards related to the 55/10 Provision which are expensed in the period granted. We had unearned compensation of \$32.4 million and \$23.4 million at June 30, 2020 and December 31, 2019, respectively, which is expected to be recognized over a remaining weighted-average period of approximately one year. These amounts will be recognized into net earnings in prospective periods as the awards vest. The total fair value of Restricted Shares vested during the three months ended June 30, 2020 and 2019 was \$2.9 million and \$2.4 million, respectively. The total fair value of Restricted Shares vested during the six months ended June 30, 2020 and 2019 was \$21.0 million and \$16.3 million, respectively.

We recorded stock-based compensation expense of \$3.3 million (\$4.2 million pre-tax) and \$5.9 million (\$7.7 million pre-tax) for the three months ended June 30, 2020 and 2019, respectively. We recorded stock-based compensation expense of \$14.4 million (\$18.5 million pre-tax) and \$11.9 million (\$15.3 million pre-tax) for the six months ended June 30, 2020 and 2019, respectively. Performance-based shares granted in 2016 did not vest due to performance targets not being achieved, resulting in 115,302 forfeited shares and a \$4.5 million reduction of stock-based compensation expense for the six months ended June 30, 2019.

The following table summarizes information regarding Restricted Shares:

	Six Months Ended June 30, 2020	
	Shares	Weighted Average Grant-Date Fair Value
Number of unvested shares:		
Outstanding - January 1, 2020	1,690,600	\$ 46.71
Granted	697,472	47.12
Vested	(458,639)	45.76
Forfeited	(325,048)	49.72
Outstanding as of June 30, 2020	1,604,385	\$ 46.55

Unvested Restricted Shares outstanding as of June 30, 2020 included approximately 562,000 units with performance-based vesting provisions. Performance-based units are issuable in common stock and vest upon the achievement of pre-defined performance targets. Performance-based units have performance targets based on our average return on invested capital and our total shareholder return ("TSR") over a three-year period. Most unvested units were granted in three annual grants since January 1, 2018 and have a vesting percentage between 0% and 200% depending on the achievement of the specific performance targets. Except for shares granted under the 55/10 Provision, compensation expense is recognized ratably over a cliff-vesting period of 36 months, based on the fair value of our common stock on the date of grant, as adjusted for actual forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets for all performance-based units granted except for the TSR-based units. Vesting provisions range from 0 to approximately 1,124,000 shares based on performance targets. As of June 30, 2020, we estimate vesting of approximately 618,000 shares based on expected achievement of performance targets.

5. Derivative Instruments and Hedges

Our risk management and foreign currency derivatives and hedging policy specifies the conditions under which we may enter into derivative contracts. See Notes 1 and 8 to our consolidated financial statements included in our 2019 Annual Report and Note 8 of this Quarterly Report for additional information on our derivatives. We enter into foreign exchange forward contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction.

Foreign exchange contracts with third parties had a notional value of \$385.1 million and \$398.5 million at June 30, 2020 and December 31, 2019, respectively. At June 30, 2020, the length of foreign exchange contracts currently in place ranged from 6 days to 26 months.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under foreign exchange contracts agreements and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

The fair values of foreign exchange contracts are summarized below:

(Amounts in thousands)	June 30, 2020	December 31, 2019
Current derivative assets	\$ 2,206	\$ 892
Noncurrent derivative assets	—	15
Current derivative liabilities	1,202	3,418
Noncurrent derivative liabilities	231	8

Current and noncurrent derivative assets are reported in our condensed consolidated balance sheets in prepaid expenses and other and other assets, net, respectively. Current and noncurrent derivative liabilities are reported in our condensed consolidated balance sheets in accrued liabilities and retirement obligations and other liabilities, respectively.

The impact of net changes in the fair values of foreign exchange contracts are summarized below:

(Amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gains (losses) recognized in income	\$ (3,520)	\$ (1,413)	\$ (61)	\$ (2,694)

Gains and losses recognized in our condensed consolidated statements of income for foreign exchange contracts are classified as other income (expense), net.

We previously designated €255.7 million of our €500.0 million Euro senior notes discussed in Note 6 as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. We use the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the Euro senior notes due to remeasurement of the effective portion is reported in accumulated other comprehensive loss on our condensed consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in other income (expense), net in our condensed consolidated statement of income. We evaluate the effectiveness of our net investment hedge on a prospective basis at the beginning of each quarter. We did not record any ineffectiveness for the six months ended June 30, 2020 and 2019.

6. Debt

Debt, including finance lease obligations, consisted of:

(Amounts in thousands, except percentages)	June 30, 2020	December 31, 2019
1.25% EUR Senior Notes due March 17, 2022, net of unamortized discount and debt issuance costs of \$2,065 and \$2,653	\$ 559,485	\$ 557,847
3.50% USD Senior Notes due September 15, 2022, net of unamortized discount and debt issuance costs of \$1,583 and \$1,924	498,417	498,076
4.00% USD Senior Notes due November 15, 2023, net of unamortized discount and debt issuance costs of \$1,563 and \$1,777	298,437	298,223
Finance lease obligations and other borrowings	20,197	23,103
Debt and finance lease obligations	1,376,536	1,377,249
Less amounts due within one year	9,058	11,272
Total debt due after one year	\$ 1,367,478	\$ 1,365,977

Senior Credit Facility

On July 16, 2019, we entered into a credit agreement (“Credit Agreement”) with Bank of America, N.A., as administrative agent, and the other lenders party thereto. The Credit Agreement provides for an \$800.0 million unsecured senior credit facility with a maturity date of July 16, 2024 (“Senior Credit Facility”). The Senior Credit Facility includes a \$750.0 million sublimit for the issuance of letters of credit and a \$30.0 million sublimit for swing line loans. We have the right to increase the amount of the Senior Credit Facility by an aggregate amount not to exceed \$400.0 million, subject to certain conditions, including each Lender’s approval providing any increase.

The interest rates per annum applicable to the Senior Credit Facility, other than with respect to swing line loans, are LIBOR plus between 1.000% to 1.750%, depending on our debt rating by either Moody’s Investors Service, Inc. or Standard & Poor’s Financial Services LLC (“S&P”) Ratings, or, at our option, the Base Rate (as defined in the Credit Agreement) plus between 0.000% to 0.750% depending on our debt rating by either Moody’s Investors Service, Inc. or S&P Ratings. At June 30, 2020, the interest rate on the Senior Credit Facility was LIBOR plus 1.375% in the case of LIBOR loans and the Base Rate plus 0.375% in the case of Base Rate loans. In addition, a commitment fee is payable quarterly in arrears on the daily unused portions of the Senior Credit Facility. The commitment fee will be between 0.090% and 0.300% of unused amounts under the Senior Credit Facility depending on our debt rating by either Moody’s Investors Service, Inc. or S&P’s Ratings. The commitment fee was 0.20% (per annum) during the period ended June 30, 2020.

As of June 30, 2020 and December 31, 2019, we had no revolving loans outstanding. We had outstanding letters of credit of \$62.4 million and \$88.5 million at June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020, due to a financial covenant in the Senior Credit Facility, the amount available for borrowings was effectively limited to \$722.2 million. The amount available for borrowings under our Senior Credit Facility was \$711.5 million at December 31, 2019.

Our compliance with applicable financial covenants under the Senior Notes and Senior Credit Facility are tested quarterly. We were in compliance with all applicable covenants as of June 30, 2020.

7. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. Assets and liabilities recorded at fair value in our condensed consolidated balance sheets are categorized by hierarchical levels based upon the level of judgment associated with the inputs used to measure their fair values. Recurring fair value measurements are limited to investments in derivative instruments. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivatives are included in Note 5.

Our financial instruments are presented at fair value in our condensed consolidated balance sheets, with the exception of our long-term debt. The estimated fair value of our long-term debt, excluding the Senior Notes, approximates the carrying value and is classified as Level II under the fair value hierarchy. The carrying value of our debt is included in Note 6. The estimated fair value of our Senior Notes at June 30, 2020 was \$1,353.4 million compared to the carrying value of \$1,356.3 million. The estimated fair value of the Senior Notes is based on Level I quoted market rates. The carrying amounts of our other financial instruments (e.g., cash and cash equivalents, accounts receivable, net, accounts payable and short-term debt) approximated fair value due to their short-term nature at June 30, 2020 and December 31, 2019.

8. Inventories

Inventories, net consisted of the following:

(Amounts in thousands)	June 30, 2020	December 31, 2019
Raw materials	\$ 340,941	\$ 328,080
Work in process	226,134	192,993
Finished goods	198,827	218,408
Less: Excess and obsolete reserve	(81,471)	(78,644)
Inventories, net	\$ 684,431	\$ 660,837

9. Earnings Per Share

The following is a reconciliation of net earnings of Flowserve Corporation and weighted average shares for calculating net earnings per common share. Earnings per weighted average common share outstanding was calculated as follows:

	Three Months Ended June 30,	
	2020	2019
<i>(Amounts in thousands, except per share data)</i>		
Net earnings of Flowserve Corporation	\$ 8,645	\$ 58,172
Dividends on restricted shares not expected to vest	—	—
Earnings attributable to common and participating shareholders	<u>\$ 8,645</u>	<u>\$ 58,172</u>
Weighted average shares:		
Common stock	130,148	131,126
Participating securities	22	21
Denominator for basic earnings per common share	<u>130,170</u>	<u>131,147</u>
Effect of potentially dilutive securities	560	607
Denominator for diluted earnings per common share	<u><u>130,730</u></u>	<u><u>131,754</u></u>
Earnings per common share:		
Basic	\$ 0.07	\$ 0.44
Diluted	0.07	0.44

	Six Months Ended June 30,	
	2020	2019
<i>(Amounts in thousands, except per share data)</i>		
Net earnings of Flowserve Corporation	\$ 8,035	\$ 115,433
Dividends on restricted shares not expected to vest	—	—
Earnings attributable to common and participating shareholders	<u>\$ 8,035</u>	<u>\$ 115,433</u>
Weighted average shares:		
Common stock	130,439	131,044
Participating securities	23	21
Denominator for basic earnings per common share	<u>130,462</u>	<u>131,065</u>
Effect of potentially dilutive securities	690	578
Denominator for diluted earnings per common share	<u><u>131,152</u></u>	<u><u>131,643</u></u>
Earnings per common share:		
Basic	\$ 0.06	\$ 0.88
Diluted	0.06	0.88

Diluted earnings per share above is based upon the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options and Restricted Shares.

10. Legal Matters and Contingencies

Asbestos-Related Claims

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and/or distributed by our heritage companies in the past. While the overall number of asbestos-related claims has generally declined in recent years, there can be no assurance that this trend will continue, or that the average cost per claim will not further increase. Asbestos-containing materials incorporated into any such products were encapsulated and used as internal components of process equipment, and we do not believe that any significant emission of asbestos fibers occurred during the use of this equipment.

Our practice is to vigorously contest and resolve these claims, and we have been successful in resolving a majority of claims with little or no payment. Historically, a high percentage of resolved claims have been covered by applicable insurance or indemnities from other companies, and we believe that a substantial majority of existing claims should continue to be

covered by insurance or indemnities, in whole or in part. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers or other companies for our estimated recovery, to the extent we believe that the amounts of recovery are probable. While unfavorable rulings, judgments or settlement terms regarding these claims could have a material adverse impact on our business, financial condition, results of operations and cash flows, we currently believe the likelihood is remote.

Additionally, we have claims pending against certain insurers that, if resolved more favorably than reflected in the recorded receivables, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although we expect that future claims would also be subject to then existing indemnities and insurance coverage.

Other Claims

We are also a defendant in a number of other lawsuits, including product liability claims, that are insured, subject to the applicable deductibles, arising in the ordinary course of business, and we are also involved in other uninsured routine litigation incidental to our business. We currently believe none of such litigation, either individually or in the aggregate, is material to our business, operations or overall financial condition. However, litigation is inherently unpredictable, and resolutions or dispositions of claims or lawsuits by settlement or otherwise could have an adverse impact on our financial position, results of operations or cash flows for the reporting period in which any such resolution or disposition occurs.

Although none of the aforementioned potential liabilities can be quantified with absolute certainty except as otherwise indicated above, we have established or adjusted reserves covering exposures relating to contingencies, to the extent believed to be reasonably estimable and probable based on past experience and available facts. While additional exposures beyond these reserves could exist, they currently cannot be estimated. We will continue to evaluate and update the reserves as necessary and appropriate.

11. Retirement and Postretirement Benefits

Components of the net periodic cost for retirement and postretirement benefits for the three months ended June 30, 2020 and 2019 were as follows:

(Amounts in millions)	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
	2020	2019	2020	2019	2020	2019
	Service cost	\$ 6.6	\$ 5.9	\$ 1.7	\$ 1.5	\$ —
Interest cost	3.7	4.2	1.6	2.2	0.2	0.2
Expected return on plan assets	(6.1)	(6.3)	(1.2)	(1.9)	—	—
Amortization of prior service cost	0.1	0.1	—	0.1	—	—
Amortization of unrecognized net loss (gain)	1.8	0.9	1.1	0.7	—	—
Net periodic cost recognized	<u>\$ 6.1</u>	<u>\$ 4.8</u>	<u>\$ 3.2</u>	<u>\$ 2.6</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>

Components of the net periodic cost for retirement and postretirement benefits for the six months ended June 30, 2020 and 2019 were as follows:

(Amounts in millions)	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
	2020	2019	2020	2019	2020	2019
	Service cost	\$ 12.9	\$ 11.5	\$ 3.4	\$ 2.9	\$ —
Interest cost	7.5	8.7	3.2	4.5	0.3	0.4
Expected return on plan assets	(12.8)	(12.8)	(2.4)	(3.8)	—	—
Amortization of prior service cost	0.1	0.1	0.1	0.1	0.1	—
Amortization of unrecognized net loss (gain)	3.5	1.8	2.1	1.5	(0.1)	(0.1)
Net periodic cost recognized	<u>\$ 11.2</u>	<u>\$ 9.3</u>	<u>\$ 6.4</u>	<u>\$ 5.2</u>	<u>\$ 0.3</u>	<u>\$ 0.3</u>

The components of net periodic cost for retirement and postretirement benefits other than service costs are included in other income (expense), net in our condensed consolidated statement of income.

12. Shareholders' Equity

Dividends – Generally, our dividend date-of-record is in the last month of the quarter, and the dividend is paid the following month. Any subsequent dividends will be reviewed by our Board of Directors and declared in its discretion.

Dividends declared per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Dividends declared per share	\$ 0.20	\$ 0.19	\$ 0.40	\$ 0.38

Share Repurchase Program – In 2014, our Board of Directors approved a \$500.0 million share repurchase authorization. Our share repurchase program does not have an expiration date and we reserve the right to limit or terminate the repurchase program at any time without notice.

We had no repurchases of shares of our outstanding common stock for the three months ended June 30, 2020 and 2019. We repurchased 1,057,115 shares of our outstanding common stock for \$32.1 million during the six months ended June 30, 2020, compared to no repurchases of shares for the same period in 2019. As of June 30, 2020, we had \$113.6 million of remaining capacity under our current share repurchase program.

13. Income Taxes

For the three months ended June 30, 2020, we earned \$16.2 million before taxes and provided for income taxes of \$5.4 million resulting in an effective tax rate of 33.4%. For the six months ended June 30, 2020, we earned \$54.0 million before taxes and provided for income taxes of \$41.7 million resulting in an effective tax rate of 77.3%. The effective tax rate varied from the U.S. federal statutory rate for the three months ended June 30, 2020 primarily due to the net impact of foreign operations. The effective tax rate varied from the U.S. federal statutory rate for the six months ended June 30, 2020 primarily due to the establishment of a valuation allowance against certain deferred tax assets given the current and anticipated impact to the Company's operations resulting from the COVID-19 pandemic and the distressed oil prices, and the net impact of foreign operations.

For the three months ended June 30, 2019, we earned \$82.9 million before taxes and provided for income taxes of \$22.4 million resulting in an effective tax rate of 27.0%. For the six months ended June 30, 2019, we earned \$159.0 million before taxes and provided for income taxes of \$39.0 million resulting in an effective tax rate of 24.5%. The effective tax rate varied from the U.S. federal statutory rate for the three and six months ended June 30, 2019 primarily due to the base erosion and anti-abuse tax ("BEAT") provision and state tax, partially offset by the net impact of foreign operations.

In response to the COVID-19 pandemic, many governments have enacted or are contemplating measures to provide aid and economic stimulus. These measures may include deferring the due dates of tax payments or other changes to their income and non-income-based tax laws. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted on March 27, 2020 in the U.S., includes measures to assist companies, including temporary changes to income and non-income-based tax laws. For the three and six months ended June 30, 2020, there were no material tax impacts to our condensed consolidated financial statements as they relate to the CARES Act or any other global COVID-19 measures. We continue to monitor additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service and others.

As of June 30, 2020, the amount of unrecognized tax benefits increased by \$2.7 million from December 31, 2019. With limited exception, we are no longer subject to U.S. federal income tax audits for years through 2017, state and local income tax audits for years through 2013 or non-U.S. income tax audits for years through 2012. We are currently under examination for various years in Canada, France, Germany, India, Indonesia, Italy, Mexico, the Netherlands, Philippines, Saudi Arabia, the U.S. and Venezuela.

It is reasonably possible that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters audited by various taxing authorities. It is also reasonably possible that we will have the statute of limitations close in various taxing jurisdictions within the next 12 months. As such, we estimate we could record a reduction in our tax expense of approximately \$7 million within the next 12 months.

14. Segment Information

The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the condensed consolidated financial statements:

Three Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	\$ 673,554	\$ 251,411	\$ 924,965	\$ —	\$ 924,965
Intersegment sales	510	828	1,338	(1,338)	—
Segment operating income	60,419	23,622	84,041	(41,153)	42,888

Three Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	\$ 673,966	\$ 316,118	\$ 990,084	\$ —	\$ 990,084
Intersegment sales	651	822	1,473	(1,473)	—
Segment operating income	76,161	46,161	122,322	(24,304)	98,018

Six Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	\$ 1,308,679	\$ 510,743	\$ 1,819,422	\$ —	\$ 1,819,422
Intersegment sales	1,037	1,825	2,862	(2,862)	—
Segment operating income	100,144	40,320	140,464	(72,024)	68,440

Six Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Sales to external customers	\$ 1,282,725	\$ 597,410	\$ 1,880,135	\$ —	\$ 1,880,135
Intersegment sales	1,301	1,650	2,951	(2,951)	—
Segment operating income	156,624	90,583	247,207	(57,958)	189,249

15. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive loss ("AOCL"), net of tax for the three months ended June 30, 2020 and 2019:

(Amounts in thousands)	2020				2019			
	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity	Total(1)	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity	Total(1)
Balance - April 1	\$ (522,717)	\$ (130,852)	\$ (617)	\$ (654,186)	\$ (440,980)	\$ (119,430)	\$ (796)	\$ (561,206)
Other comprehensive income (loss) before reclassifications	15,084	(793)	44	14,335	(2,848)	663	43	(2,142)
Amounts reclassified from AOCL	—	2,551	—	2,551	—	1,523	—	1,523
Net current-period other comprehensive income (loss)	15,084	1,758	44	16,886	(2,848)	2,186	43	(619)
Balance -June 30	\$ (507,633)	\$ (129,094)	\$ (573)	\$ (637,300)	\$ (443,828)	\$ (117,244)	\$ (753)	\$ (561,825)

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of \$5.9 million and \$5.2 million at April 1, 2020 and 2019, respectively, and \$5.9 million and \$5.2 million at June 30, 2020 and 2019, respectively. Includes net investment hedge losses of \$4.0 million and \$3.0 million, net of deferred taxes, at June 30, 2020 and 2019, respectively. Amounts in parentheses indicate debits.

The following table presents the reclassifications out of AOCL:

(Amounts in thousands)	Affected line item in the statement of income	Three Months Ended June 30,	
		2020(1)	2019(1)
Pension and other postretirement effects			
Amortization of actuarial losses(2)	Other income (expense), net	\$ (2,857)	\$ (1,607)
Prior service costs(2)	Other income (expense), net	(138)	(138)
	Tax benefit	444	222
	Net of tax	\$ (2,551)	\$ (1,523)

(1) Amounts in parentheses indicate decreases to income. None of the reclassified amounts have a noncontrolling interest component.

(2) These AOCL components are included in the computation of net periodic pension cost. See Note 11 for additional details.

The following table presents the changes in AOCL, net of tax for the six months ended June 30, 2020 and 2019:

(Amounts in thousands)	2020				2019			
	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity	Total(1)	Foreign currency translation items(1)	Pension and other post-retirement effects	Cash flow hedging activity	Total(1)
Balance - January 1	\$ (441,364)	\$ (137,161)	\$ (671)	\$ (579,196)	\$ (447,925)	\$ (120,647)	\$ (858)	\$ (569,430)
Other comprehensive (loss) income before reclassifications	(66,269)	3,116	98	(63,055)	4,097	393	105	4,595
Amounts reclassified from AOCL	—	4,951	—	4,951	—	3,010	—	3,010
Net current-period other comprehensive (loss) income	(66,269)	8,067	98	(58,104)	4,097	3,403	105	7,605
Balance - June 30	\$ (507,633)	\$ (129,094)	\$ (573)	\$ (637,300)	\$ (443,828)	\$ (117,244)	\$ (753)	\$ (561,825)

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of \$5.1 million and \$4.5 million at January 1, 2020 and 2019, respectively, and \$5.9 million and \$5.2 million at June 30, 2020 and 2019, respectively. Includes net investment hedge losses of \$12.5 million and \$15.2 million, net of deferred taxes, for the six months ended June 30, 2020 and 2019, respectively. Amounts in parentheses indicate debits.

The following table presents the reclassifications out of AOCL:

(Amounts in thousands)	Affected line item in the statement of income	Six Months Ended June 30,	
		2020(1)	2019(1)
Pension and other postretirement effects			
Amortization of actuarial losses(2)	Other income (expense), net	\$ (5,514)	\$ (3,163)
Prior service costs(2)	Other income (expense), net	(279)	(276)
	Tax benefit	842	429
	Net of tax	\$ (4,951)	\$ (3,010)

(1) Amounts in parentheses indicate decreases to income. None of the reclassified amounts have a noncontrolling interest component.

(2) These AOCL components are included in the computation of net periodic pension cost. See Note 11 for additional details.

16. Realignment and Transformation Programs

In the second quarter of 2020, we identified and initiated certain realignment activities resulting from our Flowserve 2.0 Transformation Program (defined below) to right-size our organizational operations based on the current business environment, with the overall objective to reduce our workforce costs, including manufacturing optimization through the consolidation of certain facilities ("2020 Realignment Program"). The realignment activities consist of restructuring and non-restructuring charges. Restructuring charges represent costs associated with the relocation of certain business activities and facility closures and include related severance costs. Non-restructuring charges are primarily employee severance associated with the workforce reductions. Expenses are primarily reported in cost of sales ("COS") or selling, general and administrative ("SG&A"), as applicable, in our condensed consolidated statements of income. We anticipate a total investment in these activities of approximately \$65 million and that the majority of the charges will be incurred in 2020. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized. The realignment programs initiated in 2015 ("2015 Realignment Programs"), which consisted of both restructuring and non-restructuring charges, were substantially complete as of March 31, 2020, resulting in \$362.4 million of total charges incurred through the completion of the programs.

In the second quarter of 2018, we launched and committed resources to our Flowserve 2.0 Transformation ("Flowserve 2.0 Transformation"), a program designed to transform our business model to drive operational excellence, reduce complexity, accelerate growth, improve organizational health and better leverage our existing global platform. The Flowserve 2.0 Transformation expenses incurred primarily consist of professional services, project management and related travel costs recorded in SG&A expenses.

Generally, the aforementioned charges will be paid in cash, except for asset write-downs, which are non-cash charges. The following is a summary of total charges, net of adjustments, related to our realignment activities and Flowserve 2.0 Transformation charges. Realignment charges incurred in the second quarter of 2020 related to our 2020 Realignment Program and realignment charges incurred in 2019 related to our 2015 Realignment Programs:

Three Months Ended June 30, 2020					
(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	\$ 11,650	\$ (167)	\$ 11,483	\$ —	\$ 11,483
SG&A	126	24	150	—	150
	<u>\$ 11,776</u>	<u>\$ (143)</u>	<u>\$ 11,633</u>	<u>\$ —</u>	<u>\$ 11,633</u>
Non-Restructuring Charges					
COS	\$ 12,003	\$ 5,819	\$ 17,822	\$ 548	\$ 18,370
SG&A	9,316	4,312	13,628	14,852	28,480
	<u>\$ 21,319</u>	<u>\$ 10,131</u>	<u>\$ 31,450</u>	<u>\$ 15,400</u>	<u>\$ 46,850</u>
Total Realignment Charges					
COS	\$ 23,653	\$ 5,652	\$ 29,305	\$ 548	\$ 29,853
SG&A	9,442	4,336	13,778	14,852	28,630
Total	<u>\$ 33,095</u>	<u>\$ 9,988</u>	<u>\$ 43,083</u>	<u>\$ 15,400</u>	<u>\$ 58,483</u>
Transformation Charges					
SG&A	\$ —	\$ —	\$ —	\$ 5,618	\$ 5,618
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,618</u>	<u>\$ 5,618</u>
Total Realignment and Transformation Charges					
COS	\$ 23,653	\$ 5,652	\$ 29,305	\$ 548	\$ 29,853
SG&A	9,442	4,336	13,778	20,470	34,248
Total	<u>\$ 33,095</u>	<u>\$ 9,988</u>	<u>\$ 43,083</u>	<u>\$ 21,018</u>	<u>\$ 64,101</u>

Three Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	\$ (928)	\$ 23	\$ (905)	\$ —	\$ (905)
SG&A	1,345	90	1,435	—	1,435
	<u>\$ 417</u>	<u>\$ 113</u>	<u>\$ 530</u>	<u>\$ —</u>	<u>\$ 530</u>
Non-Restructuring Charges					
COS	\$ 4,727	\$ 42	\$ 4,769	\$ —	\$ 4,769
SG&A	254	35	289	713	1,002
	<u>\$ 4,981</u>	<u>\$ 77</u>	<u>\$ 5,058</u>	<u>\$ 713</u>	<u>\$ 5,771</u>
Total Realignment Charges					
COS	\$ 3,799	\$ 65	\$ 3,864	\$ —	\$ 3,864
SG&A	1,599	125	1,724	713	2,437
Total	<u>\$ 5,398</u>	<u>\$ 190</u>	<u>\$ 5,588</u>	<u>\$ 713</u>	<u>\$ 6,301</u>
Transformation Charges					
SG&A	\$ —	\$ —	\$ —	\$ 7,573	\$ 7,573
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,573</u>	<u>\$ 7,573</u>
Total Realignment and Transformation Charges					
COS	\$ 3,799	\$ 65	\$ 3,864	\$ —	\$ 3,864
SG&A	1,599	125	1,724	8,286	10,010
Total	<u>\$ 5,398</u>	<u>\$ 190</u>	<u>\$ 5,588</u>	<u>\$ 8,286</u>	<u>\$ 13,874</u>

Six Months Ended June 30, 2020

(Amounts in thousands)	FPD	FCD	Subtotal- Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	\$ 13,331	\$ (272)	\$ 13,059	\$ —	\$ 13,059
SG&A	230	(3)	227	—	227
	<u>\$ 13,561</u>	<u>\$ (275)</u>	<u>\$ 13,286</u>	<u>\$ —</u>	<u>\$ 13,286</u>
Non-Restructuring Charges					
COS	\$ 12,128	\$ 13,579	\$ 25,707	\$ 548	\$ 26,255
SG&A	9,801	4,384	14,185	15,497	29,682
	<u>\$ 21,929</u>	<u>\$ 17,963</u>	<u>\$ 39,892</u>	<u>\$ 16,045</u>	<u>\$ 55,937</u>
Total Realignment Charges					
COS	\$ 25,459	\$ 13,307	\$ 38,766	\$ 548	\$ 39,314
SG&A	10,031	4,381	14,412	15,497	29,909
Total	<u>\$ 35,490</u>	<u>\$ 17,688</u>	<u>\$ 53,178</u>	<u>\$ 16,045</u>	<u>\$ 69,223</u>
Transformation Charges					
SG&A	—	—	—	11,261	11,261
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,261</u>	<u>\$ 11,261</u>
Total Realignment and Transformation Charges					
COS	\$ 25,459	\$ 13,307	\$ 38,766	\$ 548	\$ 39,314
SG&A	10,031	4,381	14,412	26,758	41,170
Total	<u>\$ 35,490</u>	<u>\$ 17,688</u>	<u>\$ 53,178</u>	<u>\$ 27,306</u>	<u>\$ 80,484</u>

Six Months Ended June 30, 2019

(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	All Other	Consolidated Total
Restructuring Charges					
COS	\$ 1,695	\$ 479	\$ 2,174	\$ —	\$ 2,174
SG&A(1)	(17,126)	413	(16,713)	16	(16,697)
	<u>\$ (15,431)</u>	<u>\$ 892</u>	<u>\$ (14,539)</u>	<u>\$ 16</u>	<u>\$ (14,523)</u>
Non-Restructuring Charges					
COS	\$ 7,122	\$ 68	\$ 7,190	\$ —	\$ 7,190
SG&A	427	34	461	1,243	1,704
	<u>\$ 7,549</u>	<u>\$ 102</u>	<u>\$ 7,651</u>	<u>\$ 1,243</u>	<u>\$ 8,894</u>
Total Realignment Charges					
COS	\$ 8,817	\$ 547	\$ 9,364	\$ —	\$ 9,364
SG&A	(16,699)	447	(16,252)	1,259	(14,993)
Total	<u>\$ (7,882)</u>	<u>\$ 994</u>	<u>\$ (6,888)</u>	<u>\$ 1,259</u>	<u>\$ (5,629)</u>
Transformation Charges					
SG&A	—	—	—	15,986	15,986
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,986</u>	<u>\$ 15,986</u>
Total Realignment and Transformation Charges					
COS	\$ 8,817	\$ 547	\$ 9,364	\$ —	\$ 9,364
SG&A	(16,699)	447	(16,252)	17,245	993
Total	<u>\$ (7,882)</u>	<u>\$ 994</u>	<u>\$ (6,888)</u>	<u>\$ 17,245</u>	<u>\$ 10,357</u>

(1) Primarily consists of gains from the sales of non-strategic manufacturing facilities that are included in our 2015 Realignment Programs.

The following is a summary of total inception to date charges, net of adjustments, related to the 2020 Realignment Program initiated in the second quarter of 2020:

(Amounts in thousands)	Inception to Date				
	FPD	FCD	Subtotal- Reportable Segments	All Other	Consolidated Total
Realignment Charges					
Restructuring Charges					
COS	\$ 11,650	\$ (167)	\$ 11,483	\$ —	\$ 11,483
SG&A	126	24	150	—	150
	<u>\$ 11,776</u>	<u>\$ (143)</u>	<u>\$ 11,633</u>	<u>\$ —</u>	<u>\$ 11,633</u>
Non-Restructuring Charges					
COS	\$ 12,003	\$ 5,819	\$ 17,822	\$ 548	\$ 18,370
SG&A	9,316	4,312	13,628	14,852	28,480
	<u>\$ 21,319</u>	<u>\$ 10,131</u>	<u>\$ 31,450</u>	<u>\$ 15,400</u>	<u>\$ 46,850</u>
Total Realignment Charges					
COS	\$ 23,653	\$ 5,652	\$ 29,305	\$ 548	\$ 29,853
SG&A	9,442	4,336	13,778	14,852	28,630
Total	<u>\$ 33,095</u>	<u>\$ 9,988</u>	<u>\$ 43,083</u>	<u>\$ 15,400</u>	<u>\$ 58,483</u>

Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include costs related to employee severance at closed facilities, contract termination costs, asset write-downs and other costs. Severance costs primarily include costs associated with involuntary termination benefits. Contract termination costs include costs related to the termination of operating leases or other contract termination costs. Asset write-downs include accelerated depreciation of fixed assets, accelerated amortization of intangible assets, divestiture of certain non-strategic assets and inventory write-downs. Other costs generally include costs related to employee relocation, asset relocation, vacant facility costs (i.e., taxes and insurance) and other charges.

The following is a summary of restructuring charges, net of adjustments, for our restructuring activities. Restructuring charges incurred in the second quarter of 2020 related to our 2020 Realignment Program and restructuring charges incurred in 2019 related to our 2015 Realignment Programs:

(Amounts in thousands)	Three Months Ended June 30, 2020				
	Severance	Contract Termination	Asset Write- Downs	Other	Total
COS	\$ 10,572	\$ —	\$ 994	\$ (83)	\$ 11,483
SG&A	126	—	24	—	150
Total	<u>\$ 10,698</u>	<u>\$ —</u>	<u>\$ 1,018</u>	<u>\$ (83)</u>	<u>\$ 11,633</u>

(Amounts in thousands)	Three Months Ended June 30, 2019				
	Severance	Contract Termination	Asset Write- Downs	Other	Total
COS	\$ 148	\$ 9	\$ (1,051)	\$ (11)	\$ (905)
SG&A	1,302	—	—	133	1,435
Total	<u>\$ 1,450</u>	<u>\$ 9</u>	<u>\$ (1,051)</u>	<u>\$ 122</u>	<u>\$ 530</u>

Six Months Ended June 30, 2020

(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	\$ 12,255	\$ —	\$ 991	\$ (187)	\$ 13,059
SG&A	265	—	—	(38)	227
Total	\$ 12,520	\$ —	\$ 991	\$ (225)	\$ 13,286

Six Months Ended June 30, 2019

(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs/ (Gains)	Other	Total
COS	\$ 1,827	\$ 48	\$ (818)	\$ 1,117	\$ 2,174
SG&A(1)	1,618	—	(18,502)	187	(16,697)
Total	\$ 3,445	\$ 48	\$ (19,320)	\$ 1,304	\$ (14,523)

(1) Primarily consists of gains from the sales of non-strategic manufacturing facilities that are included in our 2015 Realignment Programs.

The following is a summary of total inception to date restructuring charges, net of adjustments, related to our 2020 Realignment Program initiated in the second quarter of 2020:

Inception to Date

(Amounts in thousands)	Severance	Contract Termination	Asset Write-Downs	Other	Total
COS	\$ 10,572	\$ —	\$ 994	\$ (83)	\$ 11,483
SG&A	126	—	24	—	150
Total	\$ 10,698	\$ —	\$ 1,018	\$ (83)	\$ 11,633

The following represents the activity, primarily severance charges from reductions in force, related to the restructuring reserves for the six months ended June 30, 2020 and 2019:

(Amounts in thousands)	2020	2019
Balance at January 1	\$ 6,703	\$ 11,927
Charges, net of adjustments	12,270	4,796
Cash expenditures	(2,713)	(4,733)
Other non-cash adjustments, including currency	(118)	(205)
Balance at June 30	\$ 16,142	\$ 11,785

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto, and the other financial data included elsewhere in this Quarterly Report. The following discussion should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") included in our 2019 Annual Report.

EXECUTIVE OVERVIEW

Our Company

We are a world-leading manufacturer and aftermarket service provider of comprehensive flow control systems. We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. We currently employ approximately 17,000 employees in more than 50 countries.

Our business model is significantly influenced by the capital and operating spending of global infrastructure industries for the placement of new products into service and aftermarket services for existing operations. The worldwide installed base of our products is an important source of aftermarket revenue, where products are expected to ensure the maximum operating time of many key industrial processes. We have significantly invested in our aftermarket strategy to provide local support to drive customer investments in our offerings and use of our services to replace or repair installed products. The aftermarket portion of our business also helps provide business stability during various economic periods. The aftermarket service and solutions business, which is primarily served by our network of 168 QRCs located around the globe, provides a variety of service offerings for our customers including spare parts, service solutions, product life cycle solutions and other value-added services. It is generally a higher margin business compared to our original equipment business and a key component of our business strategy.

Our operations are conducted through two business segments that are referenced throughout this MD&A:

- Flowsolve Pump Division ("FPD") for custom, highly-engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts and related services; and
- Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our business segments share a focus on industrial flow control technology and have a number of common customers. These segments also have complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. Our segments also benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. For example, our segments share leadership for operational support functions, such as sales, research and development, marketing and supply chain.

The reputation of our product portfolio is built on more than 50 well-respected brand names such as Worthington, IDP, Valtek, Limitorque, Durco, Argus, Edward, Valbart and Durametall, which we believe to be one of the most comprehensive in the industry. Our products and services are sold either directly or through designated channels to more than 10,000 companies, including some of the world's leading engineering, procurement and construction ("EPC") firms, original equipment manufacturers, distributors and end users.

We continue to leverage our QRC network to be positioned as near to customers as possible for service and support in order to capture valuable aftermarket business. Along with ensuring that we have the local capability to sell, install and service our equipment in remote regions, it is equally imperative to continuously improve our global operations. Despite recent headwinds caused by the COVID-19 pandemic, we continue to enhance our global supply chain capability to increase our ability to meet global customer demands and improve the quality and timely delivery of our products over the long-term. Additionally, we continue to devote resources to improving the supply chain processes across our business segments to find areas of synergy and cost reduction and to improve our supply chain management capability to meet global customer demands. We also remain focused on improving on-time delivery and quality, while managing warranty costs as a percentage of sales across our global operations, through the assistance of a focused Continuous Improvement Process ("CIP") initiative. The goal of the CIP initiative, which includes lean manufacturing, six sigma business management strategy and value engineering, is to maximize service fulfillment to customers through on-time delivery, reduced cycle time and quality at the highest internal productivity.

COVID-19 Update

Over the past several months, we have continued to see the evolving impact that the COVID-19 pandemic is having on human health, the global economy and society at large. The pandemic's ongoing adverse impact on our operations and financial performance is expected to continue to adversely impact for its duration, our operations and financial performance. In response, we have been monitoring and continue to actively monitor the impacts of the COVID-19 pandemic on all aspects of our business and geographies. Our cross-functional crisis management team established during the first quarter of 2020 has continued monitoring and making recommendations to management to help us continue operating as an essential business, while also protecting the health and safety of our associates.

Despite our response, the COVID-19 pandemic has had an adverse effect on our performance during the first half of 2020, which we expect will continue through the second half of 2020. While we cannot reasonably estimate with certainty the duration and severity of the COVID-19 pandemic or its ultimate impact on the global economy, our business or our financial condition and results, we nonetheless remain committed to providing the critical support, products and services that our customers rely on, and currently believe that we will emerge from these events well positioned for long-term growth.

Health and Safety of Our Associates

Our first priority has been and continues to be to protect the health and safety of our associates, suppliers and customers around the world. We are incredibly proud of the great teamwork exhibited by our global workforce who have demonstrated strong resilience in adapting to continually evolving health and safety guidelines while addressing these challenging times and providing products and services to our customers.

We have implemented policies and practices to protect our workforce so they can safely and effectively carry out their vital work, and we have revised those policies and practices in light of guidance received from local and regional health authorities where appropriate. We instituted global restrictions on non-essential travel in March 2020 and the work-from-home policy for all non-essential employees who are able to do so has continued in effect in locations where health officials have advised such policies, including for our global headquarters in Irving, Texas. In those locations where employees are going to work in our facilities, we have continued taking steps, consistent with guidelines from local and global health experts to protect our employees so that we can continue to manufacture critical technologies and equipment, including providing face coverings and other personal protective equipment, enhanced cleaning of sites and implemented social distancing protocols.

Our employees and facilities have a key role in keeping essential infrastructure and industries operating, including oil and gas, water, chemical, power generation and other essential industries, such as food and beverage and healthcare. While some of our facilities have experienced periods of temporary closures during the first half of 2020 in accordance with decrees, orders and laws in their respective countries and geographies, as of July 30, 2020, all of our facilities are open and operational, and are running close to pre-COVID-19 levels as we continue to make essential products and provide services for our customers. However, the measures described above, combined with continued employee costs and under-absorption of manufacturing costs as a result of temporary closures and work-from-home policies, have had and are expected to continue having an adverse impact on our financial performance throughout the remainder of the pandemic.

Customer Demand

During the first six months of 2020, the COVID-19 pandemic's reduction in global demand for oil and gas, coupled with excessive supply due to disagreements between the Organization of Petroleum Exporting Countries ("OPEC") and other oil producing nations, led to extreme volatility in global markets and in oil prices. These conditions have adversely impacted our customers, particularly in the oil and gas markets. For example, these conditions drove a significant and broad-based decrease in customer planned capital spending, leading many of our large customers have announced double-digit capital expenditure budget decreases for the remainder of 2020. As a result, we saw overall bookings decline by 26.9% in the second quarter of 2020 as compared to the same period in 2019, resulting in a lower sequential backlog, though we have not seen a significant increase in the levels of customer cancellations in our existing backlog.

Additionally, the rapidly evolving impacts of the COVID-19 pandemic have caused reduced activity levels in our aftermarket business due to deferred spending of our customers' repair and maintenance budgets, including the impact of restricted access to our customers' facilities.

These trends are likely to continue during the duration of the COVID-19 pandemic as various actions implemented to combat the pandemic will continue to reduce demand for oil and gas. As a result, we have experienced decreased bookings, sales and financial performance and anticipate this continuing throughout the remainder of the pandemic. Additionally, we expect the headwinds in the oil and gas markets that have resulted in, and are likely to continue to result in, reduced capital expenditures and bookings for oil and gas customers to continue at least until oil demand and prices stabilize, which may not occur until after the pandemic subsides.

Supply Chain Impact

Since the onset of the pandemic, many of our suppliers have also experienced varying lengths of production and shipping conditions related to the COVID-19 pandemic, some of which continue to exist in highly affected countries such as India. These conditions have had an adverse effect on the speed at which we can manufacture and ship our products to customers, and have also led to an increase in logistics, transportation and freight costs, requiring that we diversify our supply chain and, in some instances, source materials from new suppliers. Additionally, these conditions have in some cases impacted our ability to deliver products to customers on time, which has in turn led to an increase in backlog at some of our manufacturing sites. These disruptions in our supply chain and their effects have continued throughout the of month of July and we expect they will continue as the COVID-19 pandemic continues.

Operational Impacts

We have also engaged in a number of cost savings measures in order to help mitigate certain of the adverse effects of the COVID-19 pandemic on our financial results, including certain realignment activities (further described below under “—RESULTS OF OPERATIONS – Three months ended June 30, 2020 and 2019”), a freeze on all non-essential open employment requisitions, cancellation of merit-based payroll increases for 2020, reduction of capital expenditures to approximately \$60 million and cuts in other discretionary spending. Together, we are planning approximately \$100 million of cost reductions, excluding realignment charges, in 2020 as compared to 2019, due in large part to our response to the effects of COVID-19. We continue to evaluate additional cost savings measures and will continue to implement such measures in the near term in order to reduce the impact of the COVID-19 pandemic on our financial results.

As we continue to manage our business through this unprecedented time of uncertainty and market volatility, we will remain focused on the health and safety of our associates, suppliers, customers, and will continue to provide essential products and services to our customers.

2020 Outlook

As the headwinds experienced during the first half of 2020 continue to impact our business, we expect to see an approximately 20% decline in bookings in the second half of 2020 as compared to the same period in 2019, with slightly less of an impact on revenue, which we expect will decline approximately 15% as compared to the same period in 2019. Despite these effects, however, we expect to be able to maintain adequate liquidity over the next 12 months as we manage through the current market environment. As of June 30, 2020, we had approximately \$1.3 billion of liquidity, consisting of cash and cash equivalents of \$561.7 million and \$722.2 million of borrowings available under our Credit Facility. We will continue to actively monitor the potential impacts of COVID-19 and related events on the credit markets in order to maintain sufficient liquidity and access to capital throughout 2020.

RESULTS OF OPERATIONS — Three months ended June 30, 2020 and 2019

Throughout this discussion of our results of operations, we discuss the impact of fluctuations in foreign currency exchange rates. We have calculated currency effects on operations by translating current year results on a monthly basis at prior year exchange rates for the same periods.

In the second quarter of 2020, we identified and initiated certain realignment activities resulting from our Flowserve 2.0 Transformation Program to right-size our organizational operations based on the current business environment, with the overall objective to reduce our workforce costs. We anticipate a total investment in these activities of approximately \$65 million and that the majority of charges will be incurred through the remainder of 2020. Based on actions initiated in the second quarter of 2020, we estimate that we have achieved cost savings of approximately \$5 million as of June 30, 2020, with approximately \$2 million of those savings in COS and approximately \$3 million in SG&A. Upon completion of the realignment activities, we expect full year run-rate cost savings of approximately \$100 million. Actual savings could vary from expected savings, which represent management’s best estimate to date. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized. The realignment programs initiated in 2015 (“2015 Realignment Programs”), which consisted of both restructuring and non-restructuring charges, were substantially complete as of March 31, 2020, resulting in \$362.4 million of total charges incurred through the completion of the programs.

In the second quarter of 2018, we launched and committed resources to our Flowserve 2.0 Transformation, a program designed to transform our business model to drive operational excellence, reduce complexity, accelerate growth, improve organizational health and better leverage our existing global platform, which is further discussed in Note 16 to our condensed consolidated financial statements included in this Quarterly Report. We anticipate that the Flowserve 2.0 Transformation will result in further restructuring charges, non-restructuring charges and other related transformation expenses. The Flowserve 2.0 Transformation expenses incurred primarily consist of professional services, project management and related travel costs recorded in SG&A expenses.

Realignment Activity

The total charges incurred in the second quarter of 2020 related to our 2020 Realignment Program activities and Flowserve 2.0 Transformation by segment and the charges incurred in 2019 related to our 2015 Realignment Programs and Flowserve 2.0 Transformation by segment:

Three Months Ended June 30, 2020					
(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment and Transformation Charges					
COS	\$ 23,653	\$ 5,652	\$ 29,305	\$ 548	\$ 29,853
SG&A	9,442	4,336	13,778	20,470	34,248
Total	<u>\$ 33,095</u>	<u>\$ 9,988</u>	<u>\$ 43,083</u>	<u>\$ 21,018</u>	<u>\$ 64,101</u>

Three Months Ended June 30, 2019					
(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment and Transformation Charges					
COS	\$ 3,799	\$ 65	\$ 3,864	\$ —	\$ 3,864
SG&A	1,599	125	1,724	8,286	10,010
Total	<u>\$ 5,398</u>	<u>\$ 190</u>	<u>\$ 5,588</u>	<u>\$ 8,286</u>	<u>\$ 13,874</u>

Six Months Ended June 30, 2020					
(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment and Transformation Charges					
COS	\$ 25,459	\$ 13,307	\$ 38,766	\$ 548	\$ 39,314
SG&A	10,031	4,381	14,412	26,758	41,170
Total	<u>\$ 35,490</u>	<u>\$ 17,688</u>	<u>\$ 53,178</u>	<u>\$ 27,306</u>	<u>\$ 80,484</u>

Six Months Ended June 30, 2019					
(Amounts in thousands)	FPD	FCD	Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
Total Realignment and Transformation Charges					
COS	\$ 8,817	\$ 547	\$ 9,364	\$ —	\$ 9,364
SG&A(1)	(16,699)	447	(16,252)	17,245	993
Total	<u>\$ (7,882)</u>	<u>\$ 994</u>	<u>\$ (6,888)</u>	<u>\$ 17,245</u>	<u>\$ 10,357</u>

(1) Primarily consists of gains from the sales of non-strategic manufacturing facilities that are included in our 2015 Realignment Programs.

Consolidated Results**Bookings, Sales and Backlog**

(Amounts in millions)

	Three Months Ended June 30,	
	2020	2019
Bookings	\$ 808.3	\$ 1,105.0
Sales	925.0	990.1

(Amounts in millions)

	Six Months Ended June 30,	
	2020	2019
Bookings	\$ 1,783.6	\$ 2,165.1
Sales	1,819.4	1,880.1

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer with regard to manufacturing, service or support. Bookings recorded and subsequently canceled within the year-to-date period are excluded from year-to-date bookings. Bookings for the three months ended June 30, 2020 decreased by \$296.7 million, or 26.9%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$20 million. The decrease was driven by lower bookings in the oil and gas and to a lesser extent in the general, chemical, power generation and water management industries. The decrease was primarily driven by customer original equipment bookings which have decreased in light of the impacts of the COVID-19 and distressed oil prices on these industries.

Bookings for the six months ended June 30, 2020 decreased by \$381.5 million, or 17.6%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$40 million. The decrease was driven by lower bookings in the oil and gas, chemical, power generation and water management industries, partially offset by increased bookings in the general industries. The decrease was primarily driven by customer original equipment bookings which have decreased in light of the impacts of the COVID-19 and distressed oil prices on these industries.

Sales for the three months ended June 30, 2020 decreased by \$65.1 million, or 6.6%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$24 million. The decreased sales were driven by both original equipment and aftermarket sales, with decreased sales into North America, Europe and Asia Pacific, partially offset by increased sales into the Middle East. Net sales to international customers, including export sales from the U.S., were approximately 64% and 63% of total sales for the three months ended June 30, 2020 and 2019, respectively.

Sales for the six months ended June 30, 2020 decreased by \$60.7 million, or 3.2%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$39 million. The decreased sales were driven by aftermarket sales, with decreased sales into Europe, North America, Asia Pacific and Africa, partially offset by increased sales into the Middle East and Latin America. Net sales to international customers, including export sales from the U.S., were approximately 63% and 63% of total sales for the three months ended June 30, 2020 and 2019, respectively.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of \$2,067.2 million at June 30, 2020 decreased by \$89.8 million, or 4.2%, as compared with December 31, 2019. Currency effects provided a decrease of approximately \$32 million. Approximately 35% and 33% of the backlog at June 30, 2020 and December 31, 2019, respectively, was related to aftermarket orders. Backlog includes our unsatisfied (or partially unsatisfied) performance obligations related to contracts having an original expected duration in excess of one year of approximately \$548 million, as discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Gross Profit and Gross Profit Margin

(Amounts in millions, except percentages)

	Three Months Ended June 30,	
	2020	2019
Gross profit	\$ 267.2	\$ 318.0
Gross profit margin	28.9 %	32.1 %

	Six Months Ended June 30,	
	2020	2019
(Amounts in millions, except percentages)		
Gross profit	\$ 533.1	\$ 612.1
Gross profit margin	29.3 %	32.6 %

Gross profit for the three months ended June 30, 2020 decreased by \$50.8 million, or 16.0%, as compared with the same period in 2019. Gross profit margin for the three months ended June 30, 2020 of 28.9% decreased from 32.1% for the same period in 2019. The decrease in gross profit margin was primarily due to increased realignment charges associated with our realignment actions initiated in the second quarter of 2020 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$6.6 million of manufacturing costs being expensed and other related costs. Aftermarket sales represented approximately 50% of total sales for both three months ended June 30, 2020 and 2019.

Gross profit for the six months ended June 30, 2020 decreased by \$79.0 million, or 12.9%, as compared with the same period in 2019. Gross profit margin for the six months ended June 30, 2020 of 29.3% decreased from 32.6% for the same period in 2019. The decrease in gross profit margin was primarily due to a sales mix shift to lower margin original equipment sales as compared to the same period in 2019, the increased realignment charges associated with our realignment actions initiated in the second quarter of 2020 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$15.0 million of manufacturing costs being expensed and other related costs. Aftermarket sales represented approximately 50% of total sales, as compared with approximately 52% of total sales for the same period in 2019.

Selling, General and Administrative Expense

	Three Months Ended June 30,	
	2020	2019
(Amounts in millions, except percentages)		
SG&A	\$ 227.4	\$ 223.7
SG&A as a percentage of sales	24.6 %	22.6 %

	Six Months Ended June 30,	
	2020	2019
(Amounts in millions, except percentages)		
SG&A	\$ 471.0	\$ 428.8
SG&A as a percentage of sales	25.9 %	22.8 %

SG&A for the three months ended June 30, 2020 increased by \$3.7 million, or 1.7%, as compared with the same period in 2019. Currency effects yielded a decrease of approximately \$3 million. SG&A as a percentage of sales for the three months ended June 30, 2020 increased 200 basis points as compared with the same period in 2019 primarily due to increased realignment charges associated with our realignment actions initiated in the second quarter of 2020, partially offset by a decrease in travel and selling-related expenses compared to the same period in 2019.

SG&A for the six months ended June 30, 2020 increased by \$42.2 million, or 9.8%, as compared with the same period in 2019. Currency effects yielded a decrease of approximately \$6 million. SG&A as a percentage of sales for the six months ended June 30, 2020 increased 310 basis points as compared with the same period in 2019 primarily due to increased charges related to our realignment programs, an \$8.5 million write-down of accounts receivables and contract assets related to a contract with an oil and gas customer in Latin America and the favorable impacts resulting from gains from the sales of non-strategic manufacturing facilities in the first quarter of 2019 that did not recur, partially offset by a decrease in travel and selling-related expenses compared to the same period in 2019.

Net Earnings from Affiliates

	Three Months Ended June 30,	
	2020	2019
(Amounts in millions)		
Net earnings from affiliates	\$ 3.1	\$ 3.7

	Six Months Ended June 30,	
	2020	2019
(Amounts in millions)		
Net earnings from affiliates	\$ 6.3	\$ 6.0

Net earnings from affiliates for the three months ended June 30, 2020 decreased \$0.6 million, or 16.2%, as compared with the same period in 2019. The decrease was primarily a result of decreased earnings of our FPD joint venture in South Korea.

Net earnings from affiliates for the six months ended June 30, 2020 increased \$0.3 million or 5.0% compared with the same period in 2019. The increase was primarily a result of increased earnings of our FPD joint venture in South Korea.

Operating Income and Operating Margin

	Three Months Ended June 30,	
	2020	2019
(Amounts in millions, except percentages)		
Operating income	\$ 42.9	\$ 98.0
Operating income as a percentage of sales	4.6 %	9.9 %

	Six Months Ended June 30,	
	2020	2019
(Amounts in millions, except percentages)		
Operating income	\$ 68.4	\$ 189.2
Operating income as a percentage of sales	3.8 %	10.1 %

Operating income for the three months ended June 30, 2020 decreased by \$55.1 million, or 56.2%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$5 million. The decrease was primarily a result of the \$50.8 million decrease in gross profit and the \$3.7 million increase in SG&A.

Operating income for the six months ended June 30, 2020 decreased by \$120.8 million, or 63.8%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$6 million. The decrease was primarily a result of the \$42.2 million increase in SG&A and the \$79.0 million decrease in gross profit.

Interest Expense and Interest Income

	Three Months Ended June 30,	
	2020	2019
(Amounts in millions)		
Interest expense	\$ (12.9)	\$ (14.0)
Interest income	1.1	2.2

	Six Months Ended June 30,	
	2020	2019
(Amounts in millions)		
Interest expense	\$ (25.9)	\$ (28.0)
Interest income	2.9	4.2

Interest expense for the three months ended June 30, 2020 decreased \$1.1 million, as compared with the same period in 2019. Interest income for the three months ended June 30, 2020 decreased \$1.1 million, as compared with the same period in 2019. The decrease in interest expense was primarily attributable to lower borrowings compared with same period in 2019. The decrease in interest income was partially due to lower interest rates on our average cash balances compared with same period in 2019.

Interest expense for the six months ended June 30, 2020 decreased \$2.1 million, as compared with the same period in 2019. Interest income for the six months ended June 30, 2020 decreased \$1.3 million, as compared with the same period in 2019. The decrease in interest expense was primarily attributable to lower borrowings compared with same period in 2019. The decrease in interest income was partially due to lower interest rates on our average cash balances compared with same period in 2019.

Other Income (Expense), Net

(Amounts in millions)	Three Months Ended June 30,	
	2020	2019
Other income (expense), net	\$ (14.9)	\$ (3.3)

(Amounts in millions)	Six Months Ended June 30,	
	2020	2019
Other income (expense), net	\$ 8.5	\$ (6.5)

Other income (expense), net for the three months ended June 30, 2020 increased \$11.6 million, as compared with the same period in 2019, due primarily to an \$8.9 million increase in losses from transactions in currencies other than our sites' functional currencies and a \$2.1 million increase in losses arising from transactions on foreign exchange contracts. The net change was primarily due to the foreign currency exchange rate movements in the Mexican peso, Euro, Brazilian real and Singapore dollar in relation to the U.S. dollar during the three months ended June 30, 2020, as compared with the same period in 2019.

Other income (expense), net for the six months ended June 30, 2020 increased \$15 million from an expense of \$6.5 million in 2019, due primarily to a \$14.7 million increase in gains from transactions in currencies other than our sites' functional currencies and a \$2.6 million increase in gains arising from transactions on foreign exchange contracts. The net change was primarily due to the foreign currency exchange rate movements in the Mexican peso, Brazilian real, Canadian dollar and Euro in relation to the U.S. dollar during the three months ended June 30, 2020, as compared with the same period in 2019.

Tax Expense and Tax Rate

(Amounts in millions, except percentages)	Three Months Ended June 30,	
	2020	2019
Provision for income taxes	\$ 5.4	\$ 22.4
Effective tax rate	33.4 %	27.0 %

(Amounts in millions, except percentages)	Six Months Ended June 30,	
	2020	2019
Provision for income taxes	\$ 41.7	\$ 39.0
Effective tax rate	77.3 %	24.5 %

The effective tax rate of 33.4% for the three months ended June 30, 2020 increased from 27.0% for the same period in 2019. The effective tax rate varied from the U.S. federal statutory rate for the three months ended June 30, 2020 primarily due to the net impact of foreign operations. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

The effective tax rate of 77.3% for the six months ended June 30, 2020 increased from 24.5% for the same period in 2019. The effective tax rate varied from the U.S. federal statutory rate for the six months ended June 30, 2020 primarily due to the establishment of a valuation allowance against certain deferred tax assets given the current and anticipated impact to the Company's operations resulting from the COVID-19 pandemic and the distressed oil prices, and the net impact of foreign operations. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

Other Comprehensive Income (Loss)

(Amounts in millions)	Three Months Ended June 30,	
	2020	2019
Other comprehensive income (loss)	\$ 16.9	\$ (0.6)

(Amounts in millions)	Six Months Ended June 30,	
	2020	2019
Other comprehensive income (loss)	\$ (58.1)	\$ 7.6

Other comprehensive income (loss) for the three months ended June 30, 2020 increased \$17.5 million from a loss of \$0.6 million in 2019. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, Colombian peso, Mexican peso, and Canadian dollar versus the U.S. dollar during the three months ended June 30, 2020, as compared with the same period in 2019.

Other comprehensive income (loss) for the six months ended June 30, 2020 increased \$65.7 million from income of \$7.6 million in the same period in 2019. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Mexican peso, British pound, Indian rupee and Colombian peso versus the U.S. dollar during the six months ended June 30, 2020, as compared with the same period in 2019.

Business Segments

We conduct our operations through two business segments based on the type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. The key operating results for our two business segments, FPD and FCD, are discussed below.

Flowserve Pump Division Segment Results

Our largest business segment is FPD, through which we design, manufacture, distribute and service highly custom engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts (collectively referred to as "original equipment") and related services. FPD primarily operates in the oil and gas, power generation, chemical and general industries. FPD operates in 49 countries with 39 manufacturing facilities worldwide, 13 of which are located in Europe, 12 in North America, eight in Asia and six in Latin America, and it operates 141 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

(Amounts in millions, except percentages)	Three Months Ended June 30,	
	2020	2019
Bookings	\$ 536.5	\$ 761.9
Sales	674.1	\$ 674.6
Gross profit	198.0	\$ 222.7
Gross profit margin	29.4 %	33.0 %
SG&A	140.6	150.2
Segment operating income	60.4	76.2
Segment operating income as a percentage of sales	9.0 %	11.3 %

(Amounts in millions, except percentages)	Six Months Ended June 30,	
	2020	2019
Bookings	\$ 1,220.1	\$ 1,512.0
Sales	1,309.7	1,284.0
Gross profit	393.7	423.3
Gross profit margin	30.1 %	33.0 %
SG&A	299.9	272.6
Segment operating income	100.1	156.6
Segment operating income as a percentage of sales	7.6 %	12.2 %

Bookings for the three months ended June 30, 2020 decreased by \$225.4 million, or 29.6%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$14 million. The decrease in customer bookings was driven by decreased orders in the oil and gas, chemical and power generation industries, partially offset by increased bookings in the general industries. The decrease in customer bookings of was across all regions and was primarily driven by customer original equipment bookings which have decreased in light of the impacts of the COVID-19 and distressed oil prices on these industries.

Bookings for the six months ended June 30, 2020 decreased by \$291.9 million, or 19.3%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$29 million. The decrease in customer bookings was driven by decreased orders in the oil and gas, chemical and power generation industries, partially offset by increased bookings in the general industries. The decrease in customer bookings of was across all regions and was primarily driven by customer original equipment bookings which have decreased in light of the impacts of the COVID-19 and distressed oil prices on these industries.

Sales for the three months ended June 30, 2020 remained relatively flat compared with the same period in 2019 and included negative currency effects of approximately \$20 million. Increases in customer original equipment sales were substantially offset by decreases in customer aftermarket sales. Customer sales increased \$12.9 million into the Middle East, \$4.3 million into Asia Pacific and \$1.3 million into Latin America, were substantially offset by decreased sales of \$14.3 million into Europe and \$3.2 million into Africa.

Sales for the six months ended June 30, 2020 increased \$25.7 million, or 2.0%, as compared with the same period in 2019. The increase in sales included negative currency effects of approximately \$31 million. The increase in sales was driven by original equipment sales. Customer sales increased \$41.1 million into the Middle East, \$21.3 million into North America, \$6.0 million into Latin America and \$3.2 million into Asia Pacific, partially offset by decreased sales of \$33.3 million into Europe and \$8.3 million into Africa.

Gross profit for the three months ended June 30, 2020 decreased by \$24.7 million, or 11.1%, as compared with the same period in 2019. Gross profit margin for the three months ended June 30, 2020 of 29.4% decreased from 33.0% for the same period in 2019. The decrease in gross profit margin was primarily due to a sales mix shift to lower margin original equipment sales as compared to the same period in 2019, the increased charges related to our realignment actions initiated in the second quarter of 2020 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$3.3 million of manufacturing costs being expensed and other related costs, partially offset by a sales mix shift to higher margin aftermarket sales as compared to the same period in 2019.

Gross profit for the six months ended June 30, 2020 decreased by \$29.6 million, or 7.0%, as compared with the same period in 2019. Gross profit margin for the six months ended June 30, 2020 of 30.1% decreased from 33.0% for the same period in 2019. The decrease in gross profit margin was primarily due to a sales mix shift to lower margin original equipment sales as compared to the same period in 2019, the increased charges related to our realignment actions initiated in the second quarter of 2020 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$9.2 million of manufacturing costs being expensed and other related costs.

SG&A for the three months ended June 30, 2020 decreased by \$9.6 million, or 6.4%, as compared with the same period in 2019. Currency effects provided a decrease of approximately \$2 million. The decrease in SG&A was primarily due to a decrease in travel and selling-related expenses, partially offset by increased charges related to our realignment actions initiated in the second quarter of 2020.

SG&A for the six months ended June 30, 2020 increased by \$27.3 million, or 10.0%, as compared with the same period in 2019. Currency effects provided a decrease of approximately \$5 million. The increase in SG&A was primarily due to increased charges related to our realignment programs, an \$8.5 million write-down of accounts receivables and contract assets related to a

contract with an oil and gas customer in Latin America, the favorable impacts resulting from gains from the sales of non-strategic manufacturing facilities in the first quarter of 2019 that did not recur and increased charges related to our realignment actions initiated in the second quarter of 2020, partially offset by a decrease in travel and selling-related expenses compared to the same period in 2019.

Operating income for the three months ended June 30, 2020 decreased by \$15.8 million, or 20.7%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$4 million. The decrease was primarily due to the \$24.7 million decrease in gross profit, partially offset by the \$9.6 million decrease in SG&A.

Operating income for the six months ended June 30, 2020 decreased by \$56.5 million, or 36.1%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$5 million. The decrease was primarily due to the \$29.6 million decrease in gross profit and the \$27.3 million increase in SG&A.

Backlog of \$1,418.2 million at June 30, 2020 decreased by \$142.7 million, or 9.1%, as compared with December 31, 2019. Currency effects provided a decrease of approximately \$31 million.

Flow Control Division Segment Results

FCD designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products, boiler controls and related services. FCD leverages its experience and application know-how by offering a complete menu of engineered services to complement its expansive product portfolio. FCD has a total of 49 manufacturing facilities and QRCs in 22 countries around the world, with five of its 21 manufacturing operations located in the U.S., 10 located in Europe, five located in Asia Pacific and one located in Latin America. Based on independent industry sources, we believe that FCD is the second largest industrial valve supplier on a global basis.

(Amounts in millions, except percentages)	Three Months Ended June 30,	
	2020	2019
Bookings	\$ 274.6	\$ 346.4
Sales	252.2	316.9
Gross profit	73.6	99.4
Gross profit margin	29.2 %	31.4 %
SG&A	50.0	53.3
Segment operating income	23.6	46.2
Segment operating income as a percentage of sales	9.4 %	14.6 %

(Amounts in millions, except percentages)	Six Months Ended June 30,	
	2020	2019
Bookings	\$ 570.8	\$ 659.6
Sales	512.6	599.1
Gross profit	147.9	197.2
Gross profit margin	28.9 %	32.9 %
SG&A	107.6	106.6
Segment operating income	40.3	90.6
Segment operating income as a percentage of sales	7.9 %	15.1 %

Bookings for the three months ended June 30, 2020 decreased by \$71.8 million, or 20.7%, as compared with the same period in 2019. Bookings included negative currency effects of approximately \$6 million. Decreased customer bookings in the chemical and oil and gas and general industries were partially offset by increased bookings in the power generation industry. Decreased customer bookings of \$37.6 million into North America, \$32.9 million into Europe, \$8.6 million into the Middle East and \$2.3 million into Africa were partially offset by increased bookings of \$16.0 million into Asia Pacific and \$3.3 million into Latin America. The decrease was primarily driven by customer original equipment bookings.

Bookings for the six months ended June 30, 2020 decreased by \$88.8 million, or 13.5%, as compared with the same period in 2019. Bookings included negative currency effects of approximately \$11 million. Decreased customer bookings in the chemical and oil and gas and general industries were partially offset by increased bookings in the power generation industry.

Decreased customer bookings of \$72.7 million into North America, \$21.7 million into Europe, \$4.6 million into Africa and \$1.1 million into the Middle East were partially offset by increased bookings of \$5.5 million into Asia Pacific and \$3.1 million into Latin America. The decrease was primarily driven by customer original equipment bookings.

Sales for the three months ended June 30, 2020 decreased \$64.7 million, or 20.4%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$4 million. Decreased sales were more heavily weighted towards original equipment sales. The decrease was primarily driven by decreased customer sales of \$28.4 million into North America, \$19.0 million into Asia Pacific, \$13.9 million into Europe, \$3.2 million into Latin America and \$1.7 million into Africa.

Sales for the six months ended June 30, 2020 decreased \$86.5 million, or 14.4%, as compared with the same period in 2019. The decrease included negative currency effects of approximately \$8 million. Decreased sales were primarily driven by original equipment sales. The decrease was primarily driven by decreased customer sales of \$40.5 million into North America, \$25.6 million into Europe, \$20.6 million into Asia Pacific and \$3.5 million into Latin America, partially offset by increased sales of \$1.3 million into Africa and \$1.2 million into the Middle East.

Gross profit for the three months ended June 30, 2020 decreased by \$25.8 million, or 26.0%, as compared with the same period in 2019. Gross profit margin for the three months ended June 30, 2020 of 29.2% decreased from 31.4% for the same period in 2019. The decrease in gross profit margin was primarily due to increased charges related to our realignment actions initiated in the second quarter of 2020 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$3.4 million of manufacturing costs being expensed and other related costs.

Gross profit margin for the six months ended June 30, 2020 decreased of \$49.3 million, or 25.0%, as compared with the same period in 2019. Gross profit margin for the six months ended June 30, 2020 of 28.9% decreased from 32.9% for the same period in 2019. The decrease in gross profit margin was primarily due to increased charges related to our realignment actions initiated in the second quarter of 2020, a mix shift to more original equipment sales and revenue recognized on lower margin original equipment orders as compared to the same period in 2019 and the unfavorable impact of underutilized capacity from the COVID-19 pandemic resulting in \$5.8 million of manufacturing costs being expensed and other related costs.

SG&A for the three months ended June 30, 2020 decreased by \$3.3 million, or 6.2%, as compared with the same period in 2019. Currency effects provided a decrease of approximately \$1 million. The decrease in SG&A was primarily due to a decrease in travel and selling-related expenses, partially offset by increased charges related to our realignment actions initiated in the second quarter of 2020.

SG&A for the six months ended June 30, 2020 increased by \$1.0 million, or 0.9%, as compared with the same period in 2019. Currency effects provided a decrease of approximately \$1 million. The increase in SG&A was primarily due to increased charges related to our realignment actions initiated in the second quarter of 2020, substantially offset by a decrease in travel and selling-related expenses compared to the same period in 2019.

Operating income for the three months ended June 30, 2020 decreased by \$22.6 million, or 48.9%, as compared with the same period in 2019. The decrease included negative currency effects of less than \$1 million. The decrease was primarily due to the \$25.8 million decrease in gross profit, partially offset by the \$3.3 million decrease in SG&A.

Operating income for the six months ended June 30, 2020 decreased by \$50.3 million, or 55.5%, as compared with the same period in 2019. The decrease included negative currency effects of less than \$1 million. The decrease was primarily due to the \$49.3 million decrease in gross profit.

Backlog of \$652.5 million at June 30, 2020 increased by \$52.4 million, or 8.7%, as compared with December 31, 2019. Currency effects provided a decrease of approximately \$1 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow and Liquidity Analysis

(Amounts in millions)	Six Months Ended June 30,	
	2020	2019
Net cash flows provided (used) by operating activities	\$ 21.2	\$ 49.4
Net cash flows provided (used) by investing activities	(21.2)	15.0
Net cash flows provided (used) by financing activities	(91.9)	(86.8)

Existing cash, cash generated by operations and borrowings available under our Senior Credit Facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular

basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance at June 30, 2020 was \$561.7 million, as compared with \$671.0 million at December 31, 2019.

Our cash balance decreased by \$109.3 million to \$561.7 million at June 30, 2020, as compared with December 31, 2019. The cash activity during the first six months of 2020 included \$10.8 million of proceeds from the sale of non-strategic manufacturing facilities in 2019 that were included in our 2015 Realignment Programs, \$32.1 million of share repurchases, \$52.1 million in dividend payments and \$32.0 million in capital expenditures.

For the six months ended June 30, 2020, our cash provided by operating activities was \$21.2 million, as compared to \$49.4 million for the same period in 2019. Cash flow from working capital increased for the six months ended June 30, 2020, due primarily to improved cash flow related to accounts receivable, accounts payable and inventory, partially offset by reduced cash flows from contract assets.

Decreases in accounts receivable provided \$0.9 million of cash flow for the six months ended June 30, 2020, as compared to a use of \$13.4 million for the same period in 2019. As of June 30, 2020, our days' sales outstanding ("DSO") was 74 days as compared with 73 days as of June 30, 2019.

Increases in contract assets used \$44.2 million of cash flow for the six months ended June 30, 2020, as compared to cash flows provided of \$12.4 million for the same period in 2019.

Increases in inventory used \$36.6 million and \$47.6 million of cash flow for the six months ended June 30, 2020 and June 30, 2019, respectively. Inventory turns were 3.8 times at June 30, 2020, as compared to 3.9 as of June 30, 2019.

Decreases in accounts payable used \$9.1 million of cash flow for the six months ended June 30, 2020, as compared with \$20.7 million for the same period in 2019. Increases in accrued liabilities and income taxes payable provided \$5.8 million of cash flow for the six months ended June 30, 2020, as compared with cash flows used of \$56.9 million for the same period in 2019.

Increases in contract liabilities provided \$3.5 million and \$6.7 million of cash flow for the six months ended June 30, 2020 and June 30, 2019, respectively.

Cash flows used by investing activities during the six months ended June 30, 2020 were \$21.2 million, as compared to cash flows provided of \$15.0 million for the same period in 2019. Capital expenditures during the six months ended June 30, 2020 were \$32.0 million, an increase of \$6.7 million as compared with the same period in 2019. Our capital expenditures are generally focused on strategic initiatives to pursue information technology infrastructure, ongoing scheduled replacements and upgrades and cost reduction opportunities. In 2020, total capital expenditures are expected to be approximately \$60 million. In addition, proceeds received during the six months ended June 30, 2020 from disposal of assets provided \$10.8 million, primarily from the 2019 sale of non-strategic manufacturing facilities that were included in our Realignment Programs. Proceeds received during the first six months of 2019 included \$40.3 million of proceeds from the sale of non-strategic manufacturing facilities that are included in our 2015 Realignment Programs.

Cash flows used by financing activities during the six months ended June 30, 2020 were \$91.9 million, as compared with \$86.8 million for the same period in 2019. Cash outflows during the six months ended June 30, 2020 resulted primarily from the repurchase of \$32.1 million of common shares and \$52.1 million of dividend payments.

As of June 30, 2020, we had an available capacity of \$722.2 million on our Senior Credit Facility, which provides for a \$800.0 million unsecured revolving credit facility with a maturity date of July 16, 2024. Our borrowing capacity is subject to financial covenant limitations based on the terms of our Senior Credit Facility and is also reduced by outstanding letters of credit. Our Senior Credit Facility is committed and held by a diversified group of financial institutions. Refer to Note 6 to our condensed consolidated financial statements included in this Quarterly Report for additional information concerning our Senior Credit Facility.

During the six months ended June 30, 2020 we made no cash contributions to our U.S. pension plan. At December 31, 2019 our U.S. pension plan was fully funded as defined by applicable law. After consideration of our funded status, we are currently evaluating whether we will make any incremental contributions to the U.S. pension plan in 2020. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

Considering our current debt structure and cash needs, we currently believe cash flows generated from operating activities combined with availability under our Senior Credit Facility and our existing cash balance will be sufficient to meet our cash needs for the next 12 months. Cash flows from operations could be adversely affected by economic, political and other risks associated with sales of our products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in

interest rates, among other factors. See "COVID-19 Liquidity Update" and "Cautionary Note Regarding Forward-Looking Statements" below.

As of June 30, 2020, we have \$113.6 million of remaining capacity for Board of Directors approved share repurchases. While we currently intend to continue to return cash through dividends and/or share repurchases for the foreseeable future, any future returns of cash through dividends and/or share repurchases will be reviewed individually, declared by our Board of Directors at its discretion and implemented by management.

Financing

Credit Facilities

See Note 12 to our consolidated financial statements included in our 2019 Annual Report and Note 6 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our Senior Credit Facility and related covenants. We were in compliance with all applicable covenants under our Senior Credit Facility as of June 30, 2020.

COVID-19 Liquidity Update

Given our current financial condition, we expect to be able to maintain adequate liquidity over the next 12 months as we manage through the current market environment. As of June 30, 2020, we had approximately \$1.3 billion of liquidity, consisting of cash and cash equivalents of \$561.7 million and \$722.2 million of borrowings available under our Credit Facility. In light of the liquidity currently available to us, and the costs savings measures planned and already in place, we expect to be able to maintain adequate liquidity over the next 12 months as we manage through the current market environment. We will continue to actively monitor the potential impacts of COVID-19 and related events on the credit markets in order to maintain sufficient liquidity and access to capital throughout 2020.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2019 Annual Report. These critical policies, for which no significant changes have occurred in the six months ended June 30, 2020, include:

- Revenue Recognition;
- Deferred Taxes, Tax Valuation Allowances and Tax Reserves;
- Reserves for Contingent Loss;
- Retirement and Postretirement Benefits; and
- Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets.

The process of preparing condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates. The significant estimates are reviewed quarterly with the Audit Committee of our Board of Directors.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our condensed consolidated financial statements provide a meaningful and fair perspective of our consolidated financial condition and results of operations. This is not to suggest that other general risk factors, such as changes in worldwide demand, changes in material costs, performance of acquired businesses and others, could not adversely impact our consolidated financial condition, results of operations and cash flows in future periods. See "Cautionary Note Regarding Forward-Looking Statements" below.

ACCOUNTING DEVELOPMENTS

We have presented the information about pronouncements not yet implemented in Note 1 to our condensed consolidated financial statements included in this Quarterly Report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, statements concerning our future financial performance, future debt and financing levels, investment objectives, implications of litigation and regulatory investigations and other management plans for future operations and performance.

The forward-looking statements included in this Quarterly Report are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements and are currently, or in the future could be, amplified by the COVID-19 pandemic. Specific factors that might cause such a difference include, without limitation, the following:

- uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial results and financial position, our customers and suppliers, and on the global economy, including its impact on our sales;
- a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins;
- changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog;
- our dependence on our customers' ability to make required capital investment and maintenance expenditures. The liquidity and financial position of our customers could impact capital investment decisions and their ability to pay in full and/or on a timely basis;
- if we are not able to successfully execute and realize the expected financial benefits from our strategic transformation, realignment and other cost-saving initiatives, our business could be adversely affected;
- risks associated with cost overruns on fixed fee projects and in accepting customer orders for large complex custom engineered products;
- the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries;
- the adverse impact of volatile raw materials prices on our products and operating margins;
- economic, political and other risks associated with our international operations, including military actions, trade embargoes or changes to tariffs or trade agreements that could affect customer markets, particularly North African, Russian and Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/reexport control, foreign corrupt practice laws, economic sanctions and import laws and regulations;
- increased aging and slower collection of receivables, particularly in Latin America and other emerging markets;
- our exposure to fluctuations in foreign currency exchange rates, particularly the Euro and British pound and in hyperinflationary countries such as Venezuela and Argentina;
- our furnishing of products and services to nuclear power plant facilities and other critical applications;
- potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims;
- expectations regarding acquisitions and the integration of acquired businesses;
- our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits;
- the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets;
- our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations;
- the highly competitive nature of the markets in which we operate;
- environmental compliance costs and liabilities;
- potential work stoppages and other labor matters;

- access to public and private sources of debt financing;
- our inability to protect our intellectual property in the U.S., as well as in foreign countries;
- obligations under our defined benefit pension plans;
- our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud;
- the recording of increased deferred tax asset valuation allowances in the future or the impact of tax law changes on such deferred tax assets could affect our operating results;
- risks and potential liabilities associated with cyber security threats; and
- ineffective internal controls could impact the accuracy and timely reporting of our business and financial results.

These and other risks and uncertainties are more fully discussed in the risk factors identified in "Item 1A. Risk Factors" in Part I of our 2019 Annual Report, Part II of the Quarterly Report for the period ended March 31, 2020, and Part II of this Quarterly Report, and may be identified in our Quarterly Reports on Form 10-Q and our other filings with the SEC and/or press releases from time to time. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have market risk exposure arising from changes in foreign currency exchange rate movements in foreign exchange contracts. We are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but we currently expect our counterparties will continue to meet their obligations given their current creditworthiness.

Foreign Currency Exchange Rate Risk

A substantial portion of our operations are conducted by our subsidiaries outside of the U.S. in currencies other than the U.S. dollar. Almost all of our non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions, including firm commitments and anticipated transactions, denominated in a currency other than our or a non-U.S. subsidiary's functional currency. We previously designated €255.7 million of our €500.0 million 2022 Euro Senior Notes as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. Generally, we view our investments in foreign subsidiaries from a long-term perspective and use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. We realized net gains (losses) associated with foreign currency translation of \$15.1 million and \$(2.8) million for the three months ended June 30, 2020 and 2019, respectively, and \$(66.3) million and \$4.1 million for the six months ended June 30, 2020 and 2019, respectively, which are included in other comprehensive income (loss).

We employ a foreign currency risk management strategy to minimize potential changes in cash flows from unfavorable foreign currency exchange rate movements. Where available, the use of foreign exchange contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the foreign exchange contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. As of June 30, 2020, we had a U.S. dollar equivalent of \$385.1 million in aggregate notional amount outstanding in foreign exchange contracts with third parties, as compared with \$398.5 million at December 31, 2019. Transactional currency gains and losses arising from transactions outside of our sites' functional currencies and changes in fair value of non-designated foreign exchange contracts are included in our consolidated results of operations. We recognized foreign currency net (losses) gains of \$(14.1) million and \$(3.1) million for the three months ended June 30, 2020 and 2019, respectively, and \$11.6 million and \$(5.8) million for the six months ended June 30, 2020 and 2019, respectively, which are included in other income (expense), net in the accompanying condensed consolidated statements of income.

Based on a sensitivity analysis at June 30, 2020, a 10% change in the foreign currency exchange rates for the six months ended June 30, 2020 would have impacted our net earnings by approximately \$10 million. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency exchange contracts discussed above.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are controls and other procedures that are designed to ensure that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2020. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to the legal proceedings that are described in Note 10 to our condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report, and such disclosure is incorporated by reference into this "Item 1. Legal Proceedings." In addition to the foregoing, we and our subsidiaries are named defendants in certain other ordinary routine lawsuits incidental to our business and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect the amount of any liability that could arise with respect to these matters, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There are numerous factors that affect our business, financial condition, results of operations, cash flows, reputation and/or prospects, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our 2019 Annual Report, which contain descriptions of significant factors that might cause the actual results of operations in future periods to differ materially from those currently projected in the forward-looking statements contained therein.

There have been no material changes in risk factors discussed in our 2019 Annual Report and subsequent SEC filings. The risks described in this Quarterly Report, the Quarterly Report filed for the period ended March 31, 2020, our 2019 Annual Report and in our other SEC filings or press releases from time to time are not the only risks we face. Additional risks and uncertainties are currently deemed immaterial based on management's assessment of currently available information, which remains subject to change; however, new risks that are currently unknown to us may surface in the future that materially adversely affect our business, financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Note 12 to our condensed consolidated financial statements included in this Quarterly Report includes a discussion of our share repurchase program and payment of quarterly dividends on our common stock.

During the quarter ended June 30, 2020, we had no repurchases of our common stock shares. As of June 30, 2020, we have \$113.6 million of remaining capacity under our current share repurchase program. The following table sets forth the activity for each of the three months during the quarter ended June 30, 2020:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Program (in millions)
April 1 - 30	8,161 (1)	\$ 23.16	—	\$ 113.6
May 1 - 31	5,559 (2)	22.99	—	113.6
June 1 - 30	2,607 (1)	27.97	—	113.6
Total	<u>16,327</u>	<u>\$ 23.87</u>	<u>—</u>	

(1) Represents shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares.

(2) Includes 2,790 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of \$22.93 and 2,769 shares purchased at a price of \$23.05 per share by a rabbi trust that we established in connection with our director deferral plans, pursuant to which non-employee directors may elect to defer directors' quarterly cash compensation to be paid at a later date in the form of common stock.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of Flowserve Corporation, as amended and restated effective May 26, 2020 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 26, 2020).
3.2	Flowserve Corporation By-Laws, as amended and restated effective May 22, 2020 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated May 26, 2020).
10.1+	Form of Restrictive Covenants Agreement for Officer.*
10.2+	Form of Restricted Stock Unit Agreement for certain officers pursuant to the Flowserve Corporation 2020 Long-Term Incentive Plan.*
10.3+	Form of Performance Restricted Stock Unit Agreement for certain officers pursuant to the Flowserve Corporation 2020 Long-Term Incentive Plan (TSR).*
10.4+	Form of Performance Restricted Stock Unit Agreement for certain officer pursuant to the Flowserve Corporation 2020 Long-Term Incentive Plan (ROIC).*
31.1+	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, formatted in Inline XBRL (included as Exhibit 101)

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

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

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

FLOWSERVE CORPORATION

Date: July 30, 2020

/s/ Amy B. Schwetz

Amy B. Schwetz
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: July 30, 2020

/s/ Scott V. Vopni

Scott V. Vopni
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

RESTRICTIVE COVENANTS AGREEMENT

This Restrictive Covenants Agreement (this "Agreement") is dated _____ (the "Effective Date"), and is between Flowserve Corporation, a New York corporation, and/or its subsidiaries (collectively, the "Company"), and _____ ("Executive"). The parties agree as follows:

1. **Executive's Employment with the Company.** The Company hereby employs or continues to employ Executive, subject to the terms and conditions of this Agreement, the Flowserve Corporation Code of Business Conduct and the Company's policies and procedures. Executive agrees to provide full-time services for the Company during Executive's employment by the Company. Executive agrees to devote substantially all of his/her time, energy, skill and best efforts to the performance of Executive's job duties and the business of the Company and shall perform Executive's duties in a diligent, trustworthy and business-like manner, all for the purpose of advancing the business of the Company. In addition to the provisions of Section 3 below, Executive shall not at any time during Executive's employment by the Company work on any basis (including part-time or as a consultant or an independent contractor) for a Competing Business (defined in Section 3) and shall not materially participate in any other business that is not a Competing Business or in any other business that materially interferes with Executive's duties to the Company. Further, Executive's [non-material] participation in any business that is not a Competing Business shall at all times comply with the Flowserve Corporation Code of Business Conduct and the Company's policies and procedures as in effect from time to time. Executive's employment with the Company is on an at-will basis, meaning that either Executive or the Company may terminate the employment relationship at any time and for any reason not expressly prohibited by law. The at-will nature of Executive's employment is not modified by this Agreement and cannot be modified orally, but instead may be modified only by a separate written agreement executed by the Company.

2. **The Company's Promise to Provide Confidential Information and Executive's Non-Disclosure Agreement.**

(a) **Confidential Information.** Upon Executive's execution of this Agreement and continuing on an ongoing basis during Executive's employment by the Company, the Company agrees to provide Executive with new Confidential Information (defined below) to which Executive has not previously had access and Executive expressly acknowledge and agrees that Executive will receive Confidential Information by virtue of his position. For purposes of this Agreement, "Confidential Information" includes any trade secrets or confidential or proprietary information of the Company and its subsidiaries and affiliates, including, but not limited to, the following:

(i) information concerning customers, clients, marketing, business and operational methods of the Company and its customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;

(ii) business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;

(iii) financial data, strategies, systems, research, plans, reports, recommendations and conclusions;

(iv) names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and

(v) any non-public matter or thing obtained or ascertained by Executive through Executive's association with the Company, the use or disclosure of which may reasonably be construed to be contrary to the best interests of any the Company.

Confidential Information shall not include information that is generally known to the public or was or is available to the Executive on a non-confidential basis from a source other than the Company who is not bound by any duty of confidentiality with respect to such information.

(b) Non-Disclosure. In exchange for the Company's promise to provide Executive with Confidential Information, Executive shall not, during the period of Executive's employment by the Company or at any time thereafter, disclose, publish or use for any purpose any Confidential Information, except as: (i) required in the ordinary course of the Company's business or Executive's work for the Company; (ii) required by law; or (iii) directed and authorized in writing by the Company. Upon the termination of Executive's employment by the Company for any reason and at any other time so requested by the Company, Executive shall immediately return and deliver to the Company any and all Confidential Information, computers, hard[]drives, papers, books, records, documents, memoranda, manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, which belong to the Company or relate to the Company's business and which are in Executive's possession, custody or control, whether prepared by Executive or others. If at any time after termination of Executive's employment, for any reason, Executive determines that Executive has any Confidential Information in Executive's possession or control, Executive shall immediately return to the Company, or at the Company's request destroy, all such Confidential Information in Executive's possession or control, including all copies and portions thereof. Executive shall provide the Company with written affirmation of Executive's compliance with Executive's obligations under this Section 2(b) if so requested by the Company.

(c) Survival of Executive's Obligations. Executive understands and agrees that the obligations under this Section 2 shall survive the termination of this Agreement and/or Executive's employment with the Company, regardless of the reason for such termination. Executive further understands and agrees that the obligations under this Section 2 are in addition to, and not in limitation or preemption of, all other obligations of confidentiality which Executive may have to the Company under general legal or equitable principles, any other agreement with the Company or other policies implemented by the Company.

3. Executive's Non-Competition, Non-Solicitation and Non-Recruitment Covenants.

(a) The Restrictive Covenants. Executive acknowledges that that Executive has become and will continue to become familiar with new and on-going Confidential Information. Executive recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort

and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company, including damage to the Company's business goodwill, for which there is no adequate remedy at law. For these reasons, Executive agrees that, to protect the Company's Confidential Information and business goodwill, it is necessary to enter into the following restrictive covenants:

Executive, whether individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer, director or officer of any corporation or association or in any other manner or capacity whatsoever, agrees that during Executive's employment by the Company and for a period of one (1) year following the date on which Executive's employment ceases (for whatever reason) (the "Non-Competition Period"), Executive shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) Non-Competition. Become employed by, advise, perform services, establish, have any ownership interest in, invest in or otherwise engage in any capacity, whether directly or indirectly, with a Competing Business in the Restricted Area. For purposes of this Agreement, "Competing Business" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and Executive's job duties are international in scope, the "Restricted Area" is worldwide. Nothing in this Section 3(a)(i) shall prohibit Executive's direct or indirect ownership of securities of any business traded on any national securities exchange or an inter-dealer quotation system, on condition that: Executive does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business; such ownership is for investment purposes only; and Executive does not have the right, and is not a member of a group that has the right, through the ownership of an equity interest, voting securities or otherwise, to direct the activities of such business.

(ii) Non-Solicitation. Other than for the benefit of the Company during Executive's period of employment with the Company, curtail the business of, interfere with the Company's relationship with, solicit business from, attempt to transact business with or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (A) Executive contacted, called on, serviced, did business with or had contact with during Executive's employment or that Executive attempted to contact, call on, service, or do business with during Executive's employment; (B) Executive became acquainted with or dealt with, for any reason, as a result of Executive's employment by the Company; or (C) Executive received Confidential Information regarding during Executive's employment with the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(iii) Non-Recruitment. Hire, recruit, solicit for employment, induce or encourage to leave the employment of or engagement by the Company or its subsidiaries, or otherwise cease their employment or engagement with the Company or its subsidiaries, on behalf of Executive or any other person or entity, any current employee or independent contractor

of the Company or its subsidiaries (including those employees on vacation and approved leaves of absence, disability or other approved absence with the legal right to return to employment) or any former employee or independent contractor of the Company or its subsidiaries whose employment or engagement ceased no more than three (3) months earlier.

(b) Remedies. Executive acknowledges that the restrictions contained in this Section 3, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Section 2 or Section 3.

(i) Forfeiture by Executive. If Executive breaches any restriction in Section 2 or Section 3, the Company shall be entitled to, in addition to any legal remedies available to the Company, undertake any or all of the following: (A) require Executive to forfeit all restricted stock, performance restricted stock units and/or restricted stock units granted to Executive under the Flowserve Corporation Equity and Incentive Compensation Plan or the Flowserve Corporation 2020 Long-Term Incentive Compensation Plan (collectively, the "Equity Awards") that have not vested or been settled as of the date of such violation; (B) require Executive to immediately sell to the Company one-third of all Equity Awards (or shares received in settlement thereof) that Executive still owns on the date of such violation for the then-current fair market value of such shares, determined by the closing price of Company common stock as reported by the New York Stock Exchange on the date of sale to the Company; (C) require Executive to immediately pay to the Company one-third of any gain that the Executive realized on any sale of any Equity Awards (or shares received in settlement thereof); (D) discontinue future grants of any and all equity awards under any equity incentive plan in which Executive may participate; (E) recover damages incurred by the Company as a result of the breach; and (F) recover its attorneys' fees, costs and expenses incurred in connection with such actions. To the extent that the provisions of this Section 3(b)(i) are inconsistent with any of the provisions of Executive's current or future equity award agreements (including, without limitation, grants of qualified and nonqualified stock options and restricted stock, granted prior to or after the date of this Agreement) or the terms and conditions of the Company's incentive, bonus or equity plans, the Company and Executive agree that the provisions of this Section 3(b)(i) shall control and the provisions of any such award agreements are hereby amended by the terms of this Section 3(b)(i).

(ii) Injunctive relief and damages. Executive acknowledges and agrees that a breach of Section 2 and/or Section 3 will result in irreparable harm and continuing damage to the Company, and that money damages and the remedies set forth in Section 3(b)(i) above would be not be sufficient remedies to the Company for any such breach or threatened breach. Therefore, Executive agrees that the Company shall also be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach of Section 2 or Section 3. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation,

the remedies set forth in Section 3(b)(i) or the recovery of money damages, attorneys' fees and costs.

(iii) Immunity from liability for confidential disclosure of a trade secret to the government or in a court filing. Executive shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and solely for the purpose of reporting or investigating a suspected violation of law; or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. If Executive files a lawsuit for retaliation by Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding, if Executive files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

(c) Severance Pay. If the Company learns that Executive has accepted or intends to accept a position that would violate Section 3(a)(i), then Executive may, in the Company's sole discretion, be eligible for Severance Pay while Section 3(a)(i) is in effect and on condition that Executive otherwise fully complies with the terms of this Agreement. For purposes of this section, "Severance Pay" means the Company will continue to pay Executive an amount equal to Executive's base salary as in effect on Executive's date of termination of employment by the Company (less applicable withholdings and taxes) for the length of time in which Section 3(a)(i) is in effect. Severance Pay does not include any other form of compensation, such as bonuses, commissions, stock grants, stock options, fringe benefits, company paid cell phone, automobile allowance or health or medical benefits. Severance Pay will be payable in regular intervals in accordance with the Company's payroll practices. The Company will subtract from the Severance Pay: (i) the value of any compensation and benefits (including, but not limited to, wages, salary, bonuses, allowances, commissions, stock and stock options) Executive receives from any Competing Business; (ii) the value of any severance pay, separation pay and/or separation benefits Executive receives from the Company, including, but not limited to, any pay or benefits Executive receives under the Flowserve Corporation Officer Severance Plan, the Flowserve Corporation Reduction-in-Force Severance Benefits Plan, the Flowserve Corporation Change In Control Plans and any similar plans; (iii) the value of any equity awards or gain from the sale of the same that Executive does not forfeit to the Company as required by Section 3(b)(i); and (iv) any other monies Executive owes to the Company or its affiliates. If Executive accepts employment with another business that Flowserve determines, in its sole discretion, is not a Competing Business while the Executive is receiving Severance Pay, the Company may terminate the Severance Pay.

(d) Tolling. If Executive violates any of the restrictions contained in this Section 3, the Non-Competition Period will be suspended and will not run in favor of Executive until such time that Executive cures the violation to the satisfaction of the Company.

(e) Notice. If Executive, in the future, seeks or is offered employment or any other position or capacity with a Competing Business, Executive agrees to inform each new employer or entity, before accepting employment, of the existence of the restrictions in Section 2 and Section 3. Further, before taking any employment position with any employer or entity during the Non-Competition Period, Executive agrees to give prior written notice to the Company of the name of

such employer or entity. The Company shall be entitled to advise such employer or entity of the existence of this Agreement and the provisions of Section 2 and Section 3 and to otherwise deal with such employer or entity to ensure that the provisions of Section 2 and Section 3 are enforced and duly discharged.

4. **Non-Disparagement.** Executive agrees that the Company's goodwill and reputation are assets of great value to the Company which were obtained through great costs, time and effort. Therefore, Executive agrees that during Executive's employment and after the termination of his/her employment, Executive will not in any way disparage, libel, defame, or make public statements or third-party disclosures, except to the extent required by legal proceedings, that are injurious to the Company, its business or business practices, its products or services or its employees.

5. **No Previous Restrictive Agreements.** Executive represents that, except as disclosed in writing to the Company, Executive is not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of Executive's engagement by the Company or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. Executive further represents that Executive's performance of all the terms of this Agreement and Executive's work duties for the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to Executive's employment by the Company. Executive agrees that Executive will not use or disclose any confidential, proprietary or trade secret information belonging to any former employer or third party, and Executive will not bring onto the premises of the Company or onto any Company property any confidential, proprietary or trade secret information belonging to any former employer or third party without such third parties' written consent.

6. **Miscellaneous.**

(a) **Entire Agreement; Prior Restrictive Covenants Agreements.** This Agreement, along with Executive's award agreements governing the terms and conditions of the Equity Awards and Executive's employment agreement with the Company (if any), constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes any previous agreements, written or oral, between Executive and the Company with regard to the subject matter of this Agreement. Notwithstanding the foregoing, this Agreement shall not supersede, but shall be in addition to, any written restrictive covenants agreements previously entered into between Executive and the Company. Nothing in this Agreement or any of the other agreements listed above supersedes Executive's obligations under the Flowserve Corporation Code of Business Conduct and the Company's policies and procedures.

(b) **Partial Invalidity.** In the event any court of competent jurisdiction holds any provision of this Agreement to be invalid or unenforceable, such invalid or unenforceable portion(s) shall be fully severable and be limited or excluded from this Agreement to the minimum extent required, and the remaining provisions shall not be affected or invalidated and shall remain in full force and effect.

(c) **Reformation.** Executive and the Company agree that all of the covenants contained in Section 2 and Section 3 shall survive the termination or expiration of this Agreement, and agree further that in the event any of the covenants contained in Section 2 or Section 3 shall be held by any court to be effective in any particular area or jurisdiction only if said covenant is modified to

limit its duration or scope, then the court shall have such authority to so reform the covenant, and the parties hereto shall consider such covenant(s) and/or other provisions of Section 2 and/or Section 3 to be amended and modified with respect to that particular area or jurisdiction so as to comply with the order of any such court and, as to all other jurisdictions, the covenants contained herein shall remain in full force and effect as originally written. Alternatively, at the sole option of the Company, the Company may consider such covenant(s) and/or provisions of Section 2 and/or Section 3 to be amended and modified so as to eliminate therefrom the particular area or jurisdiction as to which such covenants are so held void or otherwise unenforceable and, as to all other areas and jurisdictions covered hereunder, the covenants contained herein shall remain in full force and effect as originally written.

(d) Assignment of Rights. This Agreement shall be binding upon and inure to the benefit of Executive, the Company and any parents, subsidiaries, affiliated companies, successors or assigns of the Company.

(e) Nonwaiver. The Company's waiver of any provision of the Agreement shall not constitute (i) a continuing waiver of that provision or (ii) a waiver of any other provision of this Agreement. The Company's breach or alleged breach of this Agreement shall not excuse Executive's compliance with this Agreement.

(f) Controlling Law. Any dispute in the meaning, effect or validity of this Agreement shall be resolved in accordance with the laws of Texas. This Agreement shall be administered and governed by the laws of Texas, without regard to its conflict of laws provisions. Venue of any litigation arising from this Agreement shall be in a federal or state court of competent jurisdiction in Dallas County, Texas.

[Signature Page Follows]

The parties are executing this Agreement on the date set forth in the introductory clause.

EXECUTIVE

—
Signature

—
Print Name

FLOWSERVE CORPORATION

By:
Name:
Title: President and Chief Executive Officer

Signature Page to Restrictive Covenants Agreement

Restricted Stock Unit Agreement

Flowserve Corporation

2020 Long-Term Incentive Plan

This Restricted Stock Unit Agreement (this “Agreement”) is made and entered into by and between Flowserve Corporation, a New York corporation (the “Company”) and _____ (the “Participant”) as of _____ (the “Date of Grant”). All capitalized terms used in this Agreement and not otherwise defined herein have the meanings given to such terms in the Plan (as defined below).

WHEREAS, the Company has adopted the Flowserve Corporation 2020 Long-Term Incentive Plan (the “Plan”) to strengthen the ability of the Company to retain the services of key Employees and Outside Directors and to increase the interest of such persons in the Company’s welfare.

WHEREAS, the Organization and Compensation Committee of the Board of Directors of the Company believes that the grant of Restricted Stock Units to the Participant as described herein is consistent with the stated purposes for which the Plan was adopted.

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. Restricted Stock Units

(a) In order to encourage the Participant’s contribution to the successful performance of the Company, and in consideration of the covenants and promises of the Participant herein contained, the Company hereby grants to the Participant as of the Date of Grant, an Award of _____ Restricted Stock Units (the “RSUs”), which will be converted into the number of shares of Common Stock of the Company equal to the number of vested RSUs, subject to the conditions and restrictions set forth below and in the Plan. The RSUs granted pursuant to this Agreement may be subject to the Company’s “Clawback and Forfeiture Policy,” as the same may be modified from time to time.

(b) No Shareholder Rights

The RSUs granted pursuant to this Agreement do not and shall not entitle the Participant to any rights of a stockholder of the Company prior to the date shares of Common Stock are issued to the Participant in settlement of the Award. The Participant’s rights with respect to RSUs shall remain forfeitable at all times prior to the date on which rights become vested and the restrictions with respect to the Restricted Stock Units lapse in accordance with this Agreement.

2. Vesting and Conversion of RSUs into Common Stock

(a) Subject to the provisions of Paragraph 3 below, the RSUs shall vest ratably over a three-year period following the Date of Grant, with 1/3 of the RSUs vesting on the first anniversary of the Date of Grant, 1/3 of the RSUs vesting on the second anniversary of the Date of Grant, and 1/3 of the RSUs vesting on the third anniversary of the Date of Grant (each such date, a “Vesting Date”). In any event, subject to the provisions of Paragraph 3 below, the RSUs shall cease to vest following the Participant’s termination of employment with the Company.

(b) Subject to the provisions of Paragraph 3 below, as soon as practicable, but in no event later than the date that is two and a half (2½) months following the date on which the RSUs vest in accordance with the schedule set forth in Paragraph 2(a) above, the Company shall convert the vested RSUs into the number of whole shares, rounded up to the nearest whole share, of Common Stock equal to the number of vested RSUs, subject to the provisions of the Plan and this Agreement. The value of such shares of Common Stock shall not bear any interest owing to the passage of time.

(c) Following conversion of the vested RSUs into shares of Common Stock, such shares of Common Stock will be registered and transferred of record to the Participant. The delivery of any shares of Common Stock pursuant to this Agreement is subject to the provisions of Paragraphs 8 and 10 below.

(d) Each year that this Agreement is in effect, the Participant may receive credits (“Dividend Equivalents”) based upon the cash dividends that would have been paid on the number of shares of Common Stock equal to 100% of the RSUs as if such shares of Common Stock were actually held by the Participant. Dividend Equivalents shall be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional Dividend Equivalents). Any such reinvestment shall be at the Fair Market Value of the Common Stock at the time thereof. Dividend Equivalents may be settled in cash or shares of Common Stock, or any combination thereof, as determined by the Committee, in its sole and absolute discretion. The settlement of Dividend Equivalents in the form of shares of Common Stock will constitute a Bonus Stock Award for purposes of the Plan. Following conversion of the vested RSUs into shares of Common Stock, the Participant also shall receive a distribution of the Dividend Equivalents accrued with respect to such RSUs prior to the date of such conversion. In the event any RSUs do not vest, the Participant shall forfeit his or her right to any Dividend Equivalents accrued with respect to such unvested RSUs.

3. Effect of Termination of Employment or Services

(a) The RSUs granted pursuant to this Agreement shall vest in accordance with the vesting schedule reflected in Paragraph 2(a) above, on condition that the Participant remains employed by or continues to provide services to the Company or a Subsidiary through the applicable vesting dates set forth in paragraph 2(a). If, however, either:

(i) the Company and its Subsidiaries terminate the Participant’s employment or service relationship; or

(ii) the Participant terminates his or her employment or service relationship,

(in each case not as a result of Total and Permanent Disability or death) then the RSUs that have not vested in accordance with the vesting schedule reflected in Paragraph 2(a) above, as of the date of the termination of employment (or cessation of services, as applicable), shall be forfeited by the Participant to the Company.

(b) Termination due to Death, Total and Permanent Disability or Special End of Service. In the event the Participant's employment with the Company terminates due to his or her Total and Permanent Disability or death, then on the date of such termination of employment (the "Death/Disability Vesting Date"), 100% of the RSUs shall vest. Notwithstanding Paragraph 2(b) above and subject to Paragraph 24, as soon as practicable, but in no event later than the date that is two and a half (2½) months following the Death/Disability Vesting Date, the Company shall convert the vested RSUs into the number of whole shares of Common Stock, rounded up to the nearest whole share, equal to the number of vested RSUs, subject to the provisions of the Plan and this Agreement, and shall deliver such shares (in accordance with Paragraph 2(c) above) to the Participant (or the Participant's estate).

In the event the Participant's employment with the Company terminates due to his or her Special End of Service, then on the Vesting Date the Participant shall be entitled to receive the number of shares of Common Stock that would have been payable to such Participant if he or she had continued to provide services through such Vesting Date in accordance with Paragraph 2. For purposes of this Agreement, the terms "Special End of Service" shall mean the voluntary termination of a Participant's employment with the Company for any reason other than due to the Participant's death, Total and Permanent Disability, reduction-in-force, or "cause" (as determined by the Committee in its sole discretion) on or after attaining both (i) age 55 and (ii) 10 years of service with the Company or its subsidiaries.

(c) Notwithstanding Paragraphs 2(a) and 3(a) above, upon the cessation of the Participant's employment or services (whether voluntary or involuntary), the Committee may, in its sole and absolute discretion, elect to accelerate the vesting of some or all of the unvested RSUs.

4. Non-Solicitation and Non-Recruitment Covenants

(a) Participant acknowledges that that he or she has become and will continue to become familiar with new and on-going Confidential Information (as defined below). Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company, including damage to the Company's business goodwill, for which there is no adequate remedy at law. For these reasons, Participant agrees that, to protect the Company's Confidential Information (as defined below) and business goodwill, it is necessary to enter into the following restrictive covenants. As used in this Paragraph 4, references to the "Company" refer to the Company and its Subsidiaries.

Participant, whether individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer, director or officer of any corporation or association or in any other manner or capacity whatsoever, agrees that during Participant's employment by the Company and for a period of one (1) year following the date on which Participant's employment ceases (for whatever reason) (the "Restricted Period"), Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) Non-Solicitation. Other than for the benefit of the Company during Participant's period of employment with or engagement by the Company, curtail the business of, interfere with the Company's relationship with, solicit business from, attempt to transact business with or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (A) Participant contacted, called on, serviced, did business with or had contact with during Participant's employment or that Participant attempted to contact, call on, service, or do business with during Participant's employment or engagement; (B) Participant became acquainted with or dealt with, for any reason, as a result of Participant's employment or engagement by the Company; or (C) Participant received Confidential Information regarding during Participant's employment with or engagement by the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(ii) Non-Recruitment. Hire, recruit, solicit for employment, induce or encourage to leave the employment of or engagement by the Company, or otherwise cease their employment or engagement with the Company, on behalf of Participant or any other person or entity, any current employee or independent contractor of the Company or its subsidiaries (including those employees on vacation and approved leaves of absence, disability or other approved absence with the legal right to return to employment) or any former employee or independent contractor of the Company or its subsidiaries whose employment or engagement ceased no more than three (3) months earlier.

For purposes of this Agreement, "Confidential Information" includes any trade secrets or confidential or proprietary information of the Company and its affiliates, including, but not limited to, the following:

(i) information concerning customers, clients, marketing, business and operational methods of the Company and its customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;

(ii) business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;

(iii) financial data, strategies, systems, research, plans, reports, recommendations and conclusions;

(iv) names, arrangements with, or other information relating to, any of the Company's customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and

(v) any non-public matter or thing obtained or ascertained by Participant through Participant's association with the Company, the use or disclosure of which may reasonably be construed to be contrary to the best interests of any the Company.

(b) Remedies. Participant acknowledges that the restrictions contained in this Paragraph 4, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Paragraph 4.

(i) Forfeiture by Participant. If Participant breaches any restriction in this Paragraph 4, the Company shall be entitled to, in addition to any legal remedies available to the Company, undertake any or all of the following: (A) require Participant to forfeit any RSUs (whether then vested or unvested) that have not yet been converted into Common Stock as of the date of such violation; (B) require Participant to immediately sell to the Company a number of shares of Common Stock equal to the gross number of RSUs converted into Common Stock hereunder, for the then-current Fair Market Value of such shares; (C) require Participant to immediately pay to the Company any gain that the Participant realized on any sale of shares of Common Stock issued in settlement of the RSUs granted hereunder; (D) discontinue future grants of any and all equity awards under any equity incentive plan in which Participant may participate; (E) recover damages incurred by the Company as a result of the breach; and (F) recover its attorneys' fees, costs and expenses incurred in connection with such actions. To the extent that the provisions of this Paragraph 4 are inconsistent with the terms of any other agreement between the Company

and the Participant, the Company and Participant agree that the provisions of this Paragraph 4 shall control.

(ii) Injunctive Relief and Damages. Participant acknowledges and agrees that a breach of Paragraph 4 will result in irreparable harm and continuing damage to the Company, and that money damages and the remedies set forth in Paragraph 4(b)(i) above would be not be sufficient remedies to the Company for any such breach or threatened breach. Therefore, Participant agrees that the Company shall also be entitled to a temporary restraining order and injunctive relief restraining Participant from the commission of any breach of Paragraph 4. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the remedies set forth in Paragraph 4(b)(i) or the recovery of money damages, attorneys' fees and costs.

(c) Tolling. If Participant violates any of the restrictions contained in this Paragraph 4, the Restricted Period will be suspended and will not run in favor of Participant until such time that Participant cures the violation to the satisfaction of the Company.

5. Limitation of Rights

Nothing in this Agreement or the Plan shall be construed to:

(a) give the Participant any right to be awarded any further RSUs or any other Award in the future, even if RSUs or other Awards are granted on a regular or repeated basis, as grants of RSUs and other Awards are completely voluntary and made solely in the discretion of the Committee;

(b) give the Participant or any other person any interest in any fund or in any specified asset or assets of the Company or any Subsidiary; or

(c) confer upon the Participant the right to continue in the employment or service of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time or for any reason.

6. Data Privacy

By execution of this Agreement, the Participant acknowledges that he or she has read and understands the Flowserve Corporation Employee Data Protection Policy and Flowserve's Privacy Policy. The Participant hereby consents to the collection, processing, transmission, use and electronic and manual storage of his or her personal data by the Company, Wells Fargo Shareowner Services ("Wells Fargo") and Merrill Lynch & Co., Inc. ("Merrill Lynch") in order to facilitate Plan administration. The Participant understands and acknowledges that this consent applies to all personally-identifiable data relevant to Plan administration, including the Participant's name, home address, work email address, job title, GEMS ID, National

Identification Number or Social Security Number, employee status, work location, work phone number, tax class, previous equity grant transaction data and compensation data. The Participant further agrees to furnish to the Company any additional information requested by the Company to enable it to comply with any reporting or other requirement imposed upon the Company by or under any applicable statute or regulation.

The Participant understands that for purposes of Plan administration, the Participant's personal data will be collected and processed at 5215 N. O'Connor Blvd, Suite 2300, Irving, Texas (USA), and transferred to Wells Fargo at 161 North Concord Exchange, South St. Paul, Minnesota (USA) and Merrill Lynch at 4 World Financial Center, 250 Vesey St., New York, New York (USA).

7. Prerequisites to Benefits

Neither the Participant, nor any person claiming through the Participant, shall have any right or interest in the RSUs awarded hereunder, unless and until all the terms, conditions and provisions of this Agreement and the Plan which affect the Participant or such other person shall have been complied with as specified herein.

8. Delivery of Shares

No shares of Common Stock shall be delivered to the Participant upon conversion of the RSUs into shares of Common Stock until:

- (a) all the applicable taxes required to be withheld have been paid or withheld in full;
- (b) the approval of any governmental authority required in connection with this RSU, or the issuance of shares of Common Stock hereunder under has been received by the Company; and
- (c) if required by the Committee, the Participant has delivered to the Committee an Investment Letter in form and content satisfactory to the Company as provided in Paragraph 10 hereof.

9. Successors and Assigns

This Agreement shall bind and inure to the benefit of and be enforceable by the Participant, the Company and their respective permitted successors and assigns (including personal representatives, heirs and legatees), except that the Participant may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

10. Securities Act

The Company will not be required to deliver any shares of Common Stock pursuant to this Agreement if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the "Securities Act") or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares, sign and deliver to the Company a written statement, which shall be

in a form and contain content acceptable to the Committee, in its sole discretion (“Investment Letter”):

- (a) stating that the Participant is acquiring the shares for investment and not with a view to the sale or distribution thereof;
- (b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:
 - (i) through a broker on a national securities exchange, or
 - (ii) with the prior written approval of the Company; and
- (c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

11. Federal and State Taxes

(a) Any amount of Common Stock and/or cash that is payable or transferable to the Participant hereunder may be subject to the payment of or reduced by any amount or amounts which the Company is required to withhold under the then applicable provisions of the laws of the jurisdiction where the Participant is employed, and, if applicable, the Internal Revenue Code of 1986, as amended (the “Code”), or its successors, or any other foreign, federal, state or local tax withholding requirement. When the Company is required to withhold any amount or amounts under the applicable provisions of any foreign, federal, state or local requirement or the Code, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company’s withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.

(b) Notwithstanding Paragraph 11(a) above, if the Participant elects, and the Committee agrees, the Company’s withholding obligations may instead be satisfied as follows:

- (i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;
- (ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant for a period of at least six (6) months to satisfy the Company’s withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;
- (iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or
- (iv) any combination of the alternatives described in Paragraphs 11(b)(i) through 11(b)(iii) above.

(c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 11(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the delivery of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

12. Copy of Plan

By the electronic acceptance of this Agreement, the Participant acknowledges receipt of a copy of the Plan.

13. Administration

This Agreement is subject to the terms and conditions of the Plan. The Plan is administered by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Plan and the decisions of the majority of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Participant and the Company. Neither the Company nor the members of the Board or the Committee will be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the RSUs granted hereunder. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

14. Adjustment of Number of Shares of RSUs

The number of RSUs granted hereunder shall be subject to adjustment in accordance with Articles 12 and 13 of the Plan.

15. Non-transferability

The RSUs granted by this Agreement are not transferable by the Participant other than by will or pursuant to applicable laws of descent and distribution. The RSUs and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by operation of law, or otherwise, and is not otherwise subject to execution, attachment, garnishment or similar process. In the event of such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

16. Remedies

The Company shall be entitled to recover from the Participant reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of this Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

17. Information Confidential

As partial consideration for the granting of the Award hereunder, the Participant hereby agrees to keep confidential all information and knowledge, except that which has been disclosed in any public filings required by law, that the Participant has relating to the terms and conditions of this Agreement. However, such information may be disclosed as required by law and may be given in

confidence to the Participant's spouse and tax and financial advisors. In the event any breach of this promise comes to the attention of the Company, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to the Participant, as a factor weighing against the advisability of granting any such future award to the Participant.

18. Amendments

Except as otherwise provided in the Plan or below, this Agreement may be amended only by a written agreement executed by the Company and the Participant. Notwithstanding the foregoing, the Board or the Committee may amend this Agreement to the extent necessary or advisable in light of any addition to or change in any federal or state, tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Award or to the extent that such amendment is not materially adverse to the Participant.

19. Governing Law

This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas (excluding any conflict of laws, rule or principle of Texas law that might refer the governance, construction, or interpretation of this Plan to the laws of another state).

20. Severability

If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included.

21. Headings

The titles and headings of paragraphs are included for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

22. Word Usage

Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

23. Execution of Receipts and Releases

Any payment of cash or any issuance or transfer of shares of Common Stock or other property to the Participant or to the Participant's legal representative, heir, legatee or distributee, in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims of such persons under this Agreement. The Company may require the Participant or the Participant's legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a release and receipt therefor in such form as it shall determine.

24. Code Section 409A

Notwithstanding anything herein to the contrary, in the case of a conversion of vested RSUs and registration and transfer of shares of Common Stock on account of any termination of service (other than death), if the Participant is a “specified employee” as defined in Section 1.409A-1(i) of the final Treasury Regulations under Section 409A of the Code, then solely to the extent required under Section 409A of the Code, a distribution of such shares to the Participant shall not occur until the date which is six (6) months following the date of the Participant’s termination of service (or, if earlier, the date of the Participant’s death).

25. Electronic Delivery and Acceptance.

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

26. Insider Trading Restrictions/Market Abuse Laws. The Participant may be subject to insider trading restrictions and/or market abuse laws based on the exchange on which the shares of Common Stock are listed and in applicable jurisdictions including the United States and the Participant’s country or his or her broker’s country, if different, which may affect the Participant’s ability to accept, acquire, sell or otherwise dispose of shares, RSUs or rights linked to the value of shares of Common Stock (e.g., Dividend Equivalents) during such times as the Participant is considered to have “inside information” regarding the Company (as defined by the laws in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before he or she possessed inside information. Furthermore, the Participant could be prohibited from (i) disclosing the inside information to any third party, which may include fellow employees and (ii) “tipping” third parties or causing them otherwise to buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. The Participant acknowledges that it is the Participant’s responsibility to comply with any applicable restrictions, and the Participant should speak with his or her personal legal advisor on this matter.

27. Participant Acceptance. The Participant must accept the terms and conditions of this Agreement either electronically through the electronic acceptance procedure established by the Company or through a written acceptance delivered to the Company in a form satisfactory to the Company. In no event shall any shares of Common Stock be issued (or other securities or property distributed) under this Agreement in the absence of such acceptance. By accepting the RSUs, Participant agrees that the RSUs are granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to accepting this Agreement and fully understands all provisions of the Plan and this Agreement.

The Company and the Participant are executing this Agreement effective as of the Date of Grant set forth in the introductory clause.

FLOWSERVE CORPORATION

Chief Executive Officer

Performance Restricted Stock Unit Agreement

Flowserve Corporation

2020 Long-Term Incentive Plan

This Performance Restricted Stock Unit Agreement (this “**Agreement**”) is made and entered into by and between Flowserve Corporation, a New York corporation (the “**Company**”), and _____ (the “**Participant**”) as of _____ (the “**Date of Grant**”). All capitalized terms used in this Agreement and not otherwise defined herein have the meanings given to such terms in the Plan (defined below).

WHEREAS, the Company has adopted the Flowserve Corporation 2020 Long-Term Incentive Plan (the “**Plan**”) to strengthen the ability of the Company to retain the services of key Employees and Outside Directors and to increase the interest of such persons in the Company’s welfare.

WHEREAS, the Committee believes that the grant of Performance Restricted Stock Units to the Participant as described herein is consistent with the stated purposes for which the Plan was adopted.

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. *Performance Restricted Stock Units*

(a) In order to encourage the Participant’s contribution to the successful performance of the Company, and in consideration of the covenants and promises of the Participant herein contained, the Company hereby grants to the Participant as of the Date of Grant, an Award of _____ Restricted Stock Units subject to performance conditions (the “**Performance Shares**”), which will be converted into a number of shares of Common Stock of the Company equal to the number of vested Performance Shares or into an equivalent amount of cash, subject to the conditions and restrictions set forth below and in the Plan. The Performance Shares granted hereunder shall constitute a Performance Award within the meaning of the Plan. The Performance Shares granted pursuant to this Agreement may be subject to the Company’s “Clawback and Forfeiture Policy,” as the same may be modified from time to time.

(b) *No Shareholder Rights*. The Performance Shares granted pursuant to this Agreement do not and shall not entitle the Participant to any rights of a stockholder of the Company prior to the date shares of Common Stock are issued to the Participant in settlement of the Award. The Participant’s rights with respect to Performance Shares shall remain forfeitable at all times prior to the date on which rights become vested and the restrictions

with respect to the Performance Shares lapse in accordance with this Agreement.

2. Vesting and Conversion of Performance Shares into Common Stock

(a) Prior to March 30, _____, the Committee shall establish a threshold, target and maximum Performance Goal with respect to the Award, in accordance with the requirements of Section 6.7 of the Plan, based on the Company's total shareholder return for the period beginning January 1, _____ and ending December 31, _____ (the "**Performance Cycle**"). Following the end of the Performance Cycle, the Committee shall compare the actual performance of the Company with the Performance Goal and certify, in writing, whether and to what extent the Performance Goal has been achieved for such Performance Cycle. Subject to the provisions of Paragraph 3 below, upon written certification by the Committee, which shall occur no later than March 15 of the year following the year in which the Performance Cycle ends, as to whether, and to what extent, the Performance Goal has been achieved, the Performance Shares will become vested (the "**Vesting Date**") and will be eligible for conversion in accordance with the following schedule:

(i) If the Performance Goal achieved is less than the threshold, the Performance Shares will not vest and the Performance Shares will not be eligible for conversion.

(ii) If the threshold Performance Goal is achieved, then 50% of the Performance Shares will vest and be eligible for conversion.

(iii) If the Performance Goal achieved is between the threshold and the target, or between target and maximum, the number of Performance Shares that will vest and be eligible for conversion will be interpolated on a straight-line basis.

(iv) If the target Performance Goal is achieved, then 100% of the Performance Shares will vest and be eligible for conversion.

(v) If the maximum Performance Goal is achieved or exceeded, then 200% of the Performance Shares will vest and be eligible for conversion.

(b) Except as otherwise provided in Paragraph 3 below, no later than March 15 of the year following the year in which the Performance Cycle ends, the Company shall convert the vested Performance Shares into the number of whole shares, rounded up to the nearest whole share, of Common Stock equal to the number of vested Performance Shares, subject to the provisions of the Plan and the Agreement, or into a cash amount

determined in accordance with Paragraph 2(e) below, and shall deliver such shares (in accordance with Paragraph 2(c) below) or cash to the Participant. The value of such shares of Common Stock shall not bear any interest owing to the passage of time.

(c) Following conversion of the vested Performance Shares into shares of Common Stock, such shares of Common Stock will be registered and transferred of record to the Participant. The delivery of any shares of Common Stock pursuant to this Agreement is subject to the provisions of Paragraphs 8 and 10 below.

(d) Each year that this Agreement is in effect, the Participant may receive credits (“**Dividend Equivalents**”) based upon the cash dividends that would have been paid on the number of shares of Common Stock equal to 100% of the Performance Shares as if such shares of Common Stock were actually held by the Participant. Dividend Equivalents shall be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional Dividend Equivalents). Any such reinvestment shall be at the Fair Market Value of the Common Stock at the time thereof. Dividend Equivalents may be settled in cash or shares of Common Stock, or any combination thereof, as determined by the Committee, in its sole and absolute discretion. The settlement of Dividend Equivalents in the form of shares of Common Stock will constitute a Bonus Stock Award for purposes of the Plan. Following conversion of the vested Performance Shares into shares of Common Stock, the Participant also shall receive a distribution of the Dividend Equivalents accrued with respect to such Performance Shares prior to the date of such conversion. In the event any Performance Shares do not vest, the Participant shall forfeit his or her right to any Dividend Equivalents accrued with respect to such unvested Performance Shares.

(e) Notwithstanding the foregoing provisions of Paragraphs 2(c) and 2(d), the Committee may, in its sole and absolute discretion, in lieu of distributing any shares of Common Stock to the Participant, elect to pay the Participant an amount in cash equal to the Fair Market Value on the date of conversion of the shares of Common Stock that the Participant otherwise would be entitled to receive pursuant to this Agreement.

3. Effect of Termination of Employment or Services

(a) The Performance Shares granted pursuant to this Agreement shall vest in accordance with the provisions of Paragraph 2(a) above, on condition that the Participant remains employed by or continues to provide services to the Company or a Subsidiary through the end of the Performance Cycle. If, however (i) the Company and its Subsidiaries terminate the Participant’s employment or service relationship, or (ii) the Participant

terminates his or her employment or service relationship, (in each case not as a result of Total and Permanent Disability or death) then, except as otherwise provided in Paragraphs 3(b) and 3(c) below, the Performance Shares that have not previously vested in accordance with the vesting schedule reflected in Paragraph 2(a) above, as of the date of such termination of employment (or cessation of services, as applicable), shall be forfeited by the Participant to the Company.

(b) *Termination due to Death, Total and Permanent Disability or Special End of Service.*

(i) In the event the Participant's employment with the Company terminates due to his or her Total and Permanent Disability or death, then on the date of such termination of employment (the "**Death/Disability Vesting Date**"), 100% of the outstanding Performance Shares shall vest as if the target Performance Goal has been achieved. Notwithstanding Paragraph 2(b) above, no later than March 15 of the year following the year in which the Death/Disability Vesting Date occurs, the Company shall convert the vested Performance Shares into the number of whole shares of Common Stock, rounded up to the nearest whole share, equal to the number of vested Performance Shares, subject to the provisions of the Plan and this Agreement, or into a cash amount determined in accordance with Paragraph 2(e) above, and shall deliver such shares (in accordance with Paragraph 2(c) above) or cash to the Participant (or the Participant's estate).

(ii) In the event the Participant's employment with the Company terminates due to his or her Special End of Service, then on the Vesting Date the Participant shall be entitled to receive the number of shares of Common Stock that would have been payable to such Participant if he or she had continued to provide services through such Vesting Date in accordance with Paragraph 2. For purposes of this Agreement, the term "**Special End of Service**" shall mean the voluntary termination of a Participant's employment with the Company for any reason other than due to the Participant's death, Total and Permanent Disability, reduction-in-force or "cause" (as determined by the Committee in its sole discretion) on or after the date the Participant attains both (i) age 55 and (ii) 10 years of service with the Company or its subsidiaries.

(c) *Other Termination Provisions.* In the event a Participant's employment with the Company is terminated due to the Participant's reduction-in-force (as determined in the sole discretion of the Committee), termination triggering payment under the Flowserve Corporation

Executive Officer Severance Plan (as the same may be amended), or if a Participant is reassigned to a position not eligible for Plan participation, and such termination or reassignment occurs in the final year of the Performance Cycle, then on the Vesting Date the Participant (or the Participant's estate) shall be entitled to receive a number of shares of Common Stock equal to (i) the number of shares of Common Stock that would have been payable to such Participant if he or she had continued to provide services through the end of the Performance Cycle as determined by the Committee in accordance with Paragraph 2, multiplied by (ii) a fraction, the numerator of which is the number of full months (counting the month in which the Participant's termination of employment occurs as a full month) during the Performance Cycle that the Participant was employed by the Company, and the denominator of which is the total number of months in the Performance Cycle.

4. *Non-Competition, Non-Solicitation and Non-Recruitment Covenants*

(a) Participant acknowledges that that he or she has become and will continue to become familiar with new and on-going Confidential Information (as defined below). Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company, including damage to the Company's business goodwill, for which there is no adequate remedy at law. For these reasons, Participant agrees that, to protect the Company's Confidential Information (as defined below) and business goodwill, it is necessary to enter into the following restrictive covenants. As used in this Paragraph 4, references to the "**Company**" refer to the Company and its Subsidiaries.

Participant, whether individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer, director or officer of any corporation or association or in any other manner or capacity whatsoever, agrees that during Participant's employment by the Company and for a period of one (1) year following the date on which Participant's employment ceases (for whatever reason) (the "**Restricted Period**"), Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) Non-Solicitation. Other than for the benefit of the Company during Participant's period of employment with or engagement by the Company, curtail the business of, interfere with the Company's

relationship with, solicit business from, attempt to transact business with or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (A) Participant contacted, called on, serviced, did business with or had contact with during Participant's employment or that Participant attempted to contact, call on, service, or do business with during Participant's employment or engagement; (B) Participant became acquainted with or dealt with, for any reason, as a result of Participant's employment or engagement by the Company; or (C) Participant received Confidential Information regarding during Participant's employment with or engagement by the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(ii) Non-Recruitment. Hire, recruit, solicit for employment, induce or encourage to leave the employment or engagement by the Company, or otherwise cease their employment or engagement with the Company, on behalf of Participant or any other person or entity, any current employee or independent contractor of the Company or its subsidiaries (including those employees on vacation and approved leaves of absence, disability or other approved absence with the legal right to return to employment) or any former employee or independent contractor of the Company or its subsidiaries whose employment or engagement ceased no more than three (3) months earlier.

(iii) Non-Competition. Become employed by, advise, perform services, establish, have any ownership interest in, invest in or otherwise engage in any capacity, whether directly or indirectly, with a Competing Business in the Restricted Area. For purposes of this Agreement, "**Competing Business**" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and Participant's job duties are international in scope, the "**Restricted Area**" is worldwide. Nothing in this Paragraph 4(b)(i) shall prohibit Participant's direct or indirect ownership of securities of any business traded on any national securities exchange or an inter-dealer quotation system, on condition that: Participant does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business; such ownership is for investment purposes only; and Participant does not have the right, and is not a member of a group that has the right, through the ownership of an equity interest, voting securities or otherwise, to direct the activities of such business.

For purposes of this Agreement, “**Confidential Information**” includes any trade secrets or confidential or proprietary information of the Company and its affiliates, including, but not limited to, the following:

- (i) information concerning customers, clients, marketing, business and operational methods of the Company and its customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;
- (ii) business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;
- (iii) financial data, strategies, systems, research, plans, reports, recommendations and conclusions;
- (iv) names, arrangements with, or other information relating to, any of the Company’s customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and
- (v) any non-public matter or thing obtained or ascertained by Participant through Participant’s association with the Company, the use or disclosure of which may reasonably be construed to be contrary to the best interests of any the Company.

(b) *Remedies.* Participant acknowledges that the restrictions contained in this Paragraph 4, in view of the nature of the Company’s business, are reasonable and necessary to protect the Company’s legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Paragraph 4.

(i) *Forfeiture by Participant.* If Participant breaches any restriction in this Paragraph 4, the Company shall be entitled to, in addition to any legal remedies available to the Company, undertake any or all of the following: (A) require Participant to forfeit any Performance Shares (whether then vested or unvested) that have not yet been converted into Common Stock (or an equivalent cash payment) as of the date of such violation; (B)

require Participant to immediately sell to the Company a number of shares of Common Stock equal to the gross number of Performance Shares converted into Common Stock hereunder, for the then-current Fair Market Value of such shares; (C) require Participant to immediately pay to the Company on any cash settlement of Performance Shares hereunder or any gain that the Participant realized on any sale of shares of Common Stock issued in settlement of the Performance Shares granted hereunder; (D) discontinue future grants of any and all equity awards under any equity incentive plan in which Participant may participate; (E) recover damages incurred by the Company as a result of the breach; and (F) recover its attorneys' fees, costs and expenses incurred in connection with such actions. To the extent that the provisions of this Paragraph 4 are inconsistent with the terms of any other agreement between the Company and the Participant, the Company and Participant agree that the provisions of this Paragraph 4 shall control.

(ii) *Injunctive Relief and Damages.* Participant acknowledges and agrees that a breach of Paragraph 4 will result in irreparable harm and continuing damage to the Company, and that money damages and the remedies set forth in Paragraph 4(b)(i) above would be not be sufficient remedies to the Company for any such breach or threatened breach. Therefore, Participant agrees that the Company shall also be entitled to a temporary restraining order and injunctive relief restraining Participant from the commission of any breach of Paragraph 4. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the remedies set forth in Paragraph 4(b)(i) or the recovery of money damages, attorneys' fees and costs.

(c) *Tolling.* If Participant violates any of the restrictions contained in this Paragraph 4, the Restricted Period will be suspended and will not run in favor of Participant until such time that Participant cures the violation to the satisfaction of the Company.

5. *Limitation of Rights*

Nothing in this Agreement or the Plan shall be construed to:

(a) give the Participant any right to be awarded any further Performance Shares or any other Award in the future, even if Performance Shares or other Awards are granted on a regular or repeated basis, as grants of Performance Shares and other Awards are completely voluntary and made solely in the discretion of the Committee;

(b) give the Participant or any other person any interest in any fund or in any specified asset or assets of the Company or any Subsidiary; or

(c) confer upon the Participant the right to continue in the employment or service of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time or for any reason.

6. Data Privacy

By execution of this Agreement, the Participant acknowledges that he or she has read and understands the Flowserve Corporation Employee Data Protection Policy and Flowserve's Privacy Policy. The Participant hereby consents to the collection, processing, transmission, use and electronic and manual storage of his or her personal data by the Company, Wells Fargo Shareowner Services ("**Wells Fargo**") and Merrill Lynch & Co., Inc. ("**Merrill Lynch**") in order to facilitate Plan administration. The Participant understands and acknowledges that this consent applies to all personally-identifiable data relevant to Plan administration, including the Participant's name, home address, work email address, job title, GEMS ID, National Identification Number or Social Security Number, employee status, work location, work phone number, tax class, previous equity grant transaction data and compensation data. The Participant further agrees to furnish to the Company any additional information requested by the Company to enable it to comply with any reporting or other requirement imposed upon the Company by or under any applicable statute or regulation.

The Participant understands that for purposes of Plan administration, the Participant's personal data will be collected and processed at 5215 N. O'Connor Blvd, Suite 2300, Irving, Texas (USA), and transferred to Wells Fargo at 161 North Concord Exchange, South St. Paul, Minnesota (USA) and Merrill Lynch at 4 World Financial Center, 250 Vesey St., New York, New York (USA).

7. Prerequisites to Benefits

Neither the Participant, nor any person claiming through the Participant, shall have any right or interest in the Performance Shares awarded hereunder, unless and until all the terms, conditions and provisions of this Agreement and the Plan which affect the Participant or such other person shall have been complied with as specified herein.

8. Delivery of Shares

No shares of Common Stock shall be delivered to the Participant upon conversion of the Performance Shares into shares of Common Stock until:

(a) all the applicable taxes required to be withheld have been paid or withheld in full;

(b) the approval of any governmental authority required in connection with the Performance Shares, or the issuance of shares of Common Stock hereunder under has been received by the Company; and

(c) if required by the Committee, the Participant has delivered to the Committee an “**Investment Letter**” in form and content satisfactory to the Company as provided in Paragraph 10 hereof.

9. *Successors and Assigns*

This Agreement shall bind and inure to the benefit of and be enforceable by the Participant, the Company and their respective permitted successors and assigns (including personal representatives, heirs and legatees), except that the Participant may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

10. *Securities Act*

The Company will not be required to deliver any shares of Common Stock pursuant to this Agreement if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the “**Securities Act**”) or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares, sign and deliver to the Company a written statement, which shall be in a form and contain content acceptable to the Committee, in its sole discretion (“**Investment Letter**”):

(a) stating that the Participant is acquiring the shares for investment and not with a view to the sale or distribution thereof;

(b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:

(i) through a broker on a national securities exchange, or

(ii) with the prior written approval of the Company; and

(c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

11. *Federal and State Taxes*

(a) Any amount of Common Stock or cash that is payable or transferable to the Participant hereunder may be subject to the payment of or reduced by any amount or amounts which the Company is required to withhold under the then applicable provisions of the laws of the jurisdiction where the Participant is employed, and, if applicable, the Internal Revenue Code

of 1986, as amended (the “**Code**”), or its successors, or any other foreign, federal, state or local tax withholding requirement. When the Company is required to withhold any amount or amounts under the applicable provisions of any foreign, federal, state or local requirement or the Code, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company’s withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.

(b) Notwithstanding Paragraph 11(a) above, if the Participant elects, and the Committee agrees, the Company’s withholding obligations may instead be satisfied as follows:

(i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;

(ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant for a period of at least six (6) months to satisfy the Company’s withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;

(iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or

(iv) any combination of the alternatives described in Paragraphs 11(b)(i) through 11(b)(iii) above.

(c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 11(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the delivery of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

12. *Copy of Plan*

By the electronic acceptance of this Agreement, the Participant acknowledges receipt of a copy of the Plan.

13. *Administration*

This Agreement is subject to the terms and conditions of the Plan. The Plan is administered by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Plan and the decisions of the majority of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Participant and the Company. Neither the Company nor the members of the Board or the Committee will be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Performance Shares granted hereunder. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

14. Adjustment of Number of Performance Shares

The number of Performance Shares granted hereunder shall be subject to adjustment in accordance with Articles 12 and 13 of the Plan.

15. Non-transferability

The Performance Shares granted by this Agreement are not transferable by the Participant other than by will or pursuant to applicable laws of descent and distribution. The Performance Shares and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by operation of law, or otherwise, and is not otherwise subject to execution, attachment, garnishment or similar process. In the event of such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

16. Remedies

The Company shall be entitled to recover from the Participant reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of this Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

17. Information Confidential

As partial consideration for the granting of the Award hereunder, the Participant hereby agrees to keep confidential all information and knowledge, except that which has been disclosed in any public filings required by law, that the Participant has relating to the terms and conditions of this Agreement. However, such information may be disclosed as required by law and may be given in confidence to the Participant's spouse and tax and financial advisors. In the event any breach of this promise comes to the attention of the Company, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to the Participant, as a factor weighing against the advisability of granting any such future award to the Participant.

18. Amendments

Except as provided otherwise in the Plan or below, this Agreement may be amended only by a written agreement executed by the Company and the Participant. Notwithstanding the foregoing, the Board or the Committee may amend this Agreement to the extent necessary or advisable in

light of any addition to or change in any federal or state, tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Award or to the extent that such amendment is not materially adverse to the Participant.

19. Governing Law

This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas (excluding any conflict of laws, rule or principle of Texas law that might refer the governance, construction, or interpretation of this Plan to the laws of another state).

20. Severability

If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included.

21. Headings

The titles and headings of paragraphs are included for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

22. Word Usage

Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

23. Execution of Receipts and Releases

Any payment of cash or any issuance or transfer of shares of Common Stock or other property to the Participant or to the Participant's legal representative, heir, legatee or distributee, in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims of such persons under this Agreement. The Company may require the Participant or the Participant's legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a release and receipt therefor in such form as it shall determine.

24. Electronic Delivery and Acceptance.

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

25. *Insider Trading Restrictions/Market Abuse Laws.* The Participant may be subject to insider trading restrictions and/or market abuse laws based on the exchange on which the shares of Common Stock are listed and in applicable jurisdictions including the United States and the Participant's country or his or her broker's country, if different, which may affect the Participant's ability to accept, acquire, sell or otherwise dispose of shares, Performance Shares or rights linked to the value of shares of Common Stock (e.g., Dividend Equivalents) during such times as the Participant is considered to have "inside information" regarding the Company (as defined by the laws in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before he or she possessed inside information. Furthermore, the Participant could be prohibited from (i) disclosing the inside information to any third party, which may include fellow employees and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. The Participant acknowledges that it is the Participant's responsibility to comply with any applicable restrictions, and the Participant should speak with his or her personal legal advisor on this matter.

26. *Participant Acceptance.* The Participant must accept the terms and conditions of this Agreement either electronically through the electronic acceptance procedure established by the Company or through a written acceptance delivered to the Company in a form satisfactory to the Company. In no event shall any shares of Common Stock be issued (or other securities or property distributed) under this Agreement in the absence of such acceptance. By accepting the Performance Shares, Participant agrees that the Performance Shares are granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to accepting this Agreement and fully understands all provisions of the Plan and this Agreement.

The Company and the Participant are executing this Agreement effective as of the Date of Grant set forth in the introductory clause.

FLOWSERVE CORPORATION

Chief Executive Officer

Performance Restricted Stock Unit Agreement

Flowserve Corporation 2020 Long-Term Incentive Plan

This Performance Restricted Stock Unit Agreement (this “**Agreement**”) is made and entered into by and between Flowserve Corporation, a New York corporation (the “**Company**”), and _____ (the “**Participant**”) as of _____ (the “**Date of Grant**”). All capitalized terms used in this Agreement and not otherwise defined herein have the meanings given to such terms in the Plan (as defined below).

WHEREAS, the Company has adopted the Flowserve Corporation 2020 Long-Term Incentive Plan (the “**Plan**”) to strengthen the ability of the Company to retain the services of key Employees and Outside Directors and to increase the interest of such persons in the Company’s welfare.

WHEREAS, the Committee believes that the grant of Performance Restricted Stock Units to the Participant as described herein is consistent with the stated purposes for which the Plan was adopted.

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereafter set forth and for other good and valuable consideration, the Company and the Participant agree as follows:

1. *Performance Restricted Stock Units*

(a) In order to encourage the Participant’s contribution to the successful performance of the Company, and in consideration of the covenants and promises of the Participant herein contained, the Company hereby grants to the Participant as of the Date of Grant, an Award of _____ Restricted Stock Units subject to performance conditions (the “**Performance Shares**”), which will be converted into a number of shares of Common Stock of the Company equal to the number of vested Performance Shares or into an equivalent amount of cash, subject to the conditions and restrictions set forth below and in the Plan. The Performance Shares granted hereunder shall constitute a Performance Award within the meaning of the Plan. The Performance Shares granted pursuant to this Agreement may be subject to the Company’s “Clawback and Forfeiture Policy,” as the same may be modified from time to time.

(b) *No Shareholder Rights*. The Performance Shares granted pursuant to this Agreement do not and shall not entitle the Participant to any rights of a stockholder of the Company prior to the date shares of Common Stock are issued to the Participant in settlement of the Award. The Participant’s rights with respect to Performance Shares shall remain forfeitable at all times prior to the date on which rights become vested and the restrictions

with respect to the Performance Shares lapse in accordance with this Agreement.

2. Vesting and Conversion of Performance Shares into Common Stock

(a) Prior to March 30, _____, the Committee shall establish a threshold, target and maximum Performance Goal with respect to the Award, in accordance with the requirements of Section 6.7 of the Plan, based on the Company's return on invested capital for the period beginning _____ and ending _____ (the "**Performance Cycle**"). Following the end of the Performance Cycle, the Committee shall compare the actual performance of the Company with the Performance Goal and certify, in writing, whether and to what extent the Performance Goal has been achieved for such Performance Cycle. Subject to the provisions of Paragraph 3 below, upon written certification by the Committee, which shall occur no later than March 15 of the year following the year in which the Performance Cycle ends, as to whether, and to what extent, the Performance Goal has been achieved, the Performance Shares will become vested (the "**Vesting Date**") and will be eligible for conversion in accordance with the following schedule:

(i) If the Performance Goal achieved is less than the threshold, the Performance Shares will not vest and the Performance Shares will not be eligible for conversion.

(ii) If the threshold Performance Goal is achieved, then 50% of the Performance Shares will vest and be eligible for conversion.

(iii) If the Performance Goal achieved is between the threshold and the target, or between target and maximum, the number of Performance Shares that will vest and be eligible for conversion will be interpolated on a straight-line basis.

(iv) If the target Performance Goal is achieved, then 100% of the Performance Shares will vest and be eligible for conversion.

(v) If the maximum Performance Goal is achieved or exceeded, then 200% of the Performance Shares will vest and be eligible for conversion.

(b) Except as otherwise provided in Paragraph 3 below, no later than March 15 of the year following the year in which the Performance Cycle ends, the Company shall convert the vested Performance Shares into the number of whole shares, rounded up to the nearest whole share, of Common Stock equal to the number of vested Performance Shares, subject to the provisions of the Plan and the Agreement, or into a cash amount

determined in accordance with Paragraph 2(e) below, and shall deliver such shares (in accordance with Paragraph 2(c) below) or cash to the Participant. The value of such shares of Common Stock shall not bear any interest owing to the passage of time.

(c) Following conversion of the vested Performance Shares into shares of Common Stock, such shares of Common Stock will be registered and transferred of record to the Participant. The delivery of any shares of Common Stock pursuant to this Agreement is subject to the provisions of Paragraphs 8 and 10 below.

(d) Each year that this Agreement is in effect, the Participant may receive credits (“**Dividend Equivalents**”) based upon the cash dividends that would have been paid on the number of shares of Common Stock equal to 100% of the Performance Shares as if such shares of Common Stock were actually held by the Participant. Dividend Equivalents shall be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional Dividend Equivalents). Any such reinvestment shall be at the Fair Market Value of the Common Stock at the time thereof. Dividend Equivalents may be settled in cash or shares of Common Stock, or any combination thereof, as determined by the Committee, in its sole and absolute discretion. The settlement of Dividend Equivalents in the form of shares of Common Stock will constitute a Bonus Stock Award for purposes of the Plan. Following conversion of the vested Performance Shares into shares of Common Stock, the Participant also shall receive a distribution of the Dividend Equivalents accrued with respect to such Performance Shares prior to the date of such conversion. In the event any Performance Shares do not vest, the Participant shall forfeit his or her right to any Dividend Equivalents accrued with respect to such unvested Performance Shares.

(e) Notwithstanding the foregoing provisions of Paragraphs 2(c) and 2(d), the Committee may, in its sole and absolute discretion, in lieu of distributing any shares of Common Stock to the Participant, elect to pay the Participant an amount in cash equal to the Fair Market Value on the date of conversion of the shares of Common Stock that the Participant otherwise would be entitled to receive pursuant to this Agreement.

3. Effect of Termination of Employment or Services

(a) The Performance Shares granted pursuant to this Agreement shall vest in accordance with the provisions of Paragraph 2(a) above, on condition that the Participant remains employed by or continues to provide services to the Company or a Subsidiary through the end of the Performance Cycle. If, however (i) the Company and its Subsidiaries terminate the Participant’s employment or service relationship, or (ii) the Participant

terminates his or her employment or service relationship (in each case not as a result of Total and Permanent Disability or death), then, except as otherwise provided in Paragraphs 3(b) and 3(c) below, the Performance Shares that have not previously vested in accordance with the vesting schedule reflected in Paragraph 2(a) above, as of the date of such termination of employment (or cessation of services, as applicable), shall be forfeited by the Participant to the Company.

(b) *Termination due to Death, Total and Permanent Disability or Special End of Service.*

(i) In the event the Participant's employment with the Company terminates due to his or her Total and Permanent Disability or death, then on the date of such termination of employment (the "**Death/Disability Vesting Date**"), 100% of the outstanding Performance Shares shall vest as if the target Performance Goal has been achieved. Notwithstanding Paragraph 2(b) above, no later than March 15 of the year following the year in which the Death/Disability Vesting Date occurs, the Company shall convert the vested Performance Shares into the number of whole shares of Common Stock, rounded up to the nearest whole share, equal to the number of vested Performance Shares, subject to the provisions of the Plan and this Agreement, or into a cash amount determined in accordance with Paragraph 2(e) above, and shall deliver such shares (in accordance with Paragraph 2(c) above) or cash to the Participant (or the Participant's estate).

(ii) In the event the Participant's employment with the Company terminates due to his or her Special End of Service, then on the Vesting Date the Participant shall be entitled to receive the number of shares of Common Stock that would have been payable to such Participant if he or she had continued to provide services through such Vesting Date in accordance with Paragraph 2. For purposes of this Agreement, the term "**Special End of Service**" shall mean the voluntary termination of a Participant's employment with the Company for any reason other than due to the Participant's death, Total and Permanent Disability, reduction-in-force or "cause" (as determined by the Committee in its sole discretion) on or after the date the Participant attains both (i) age 55 and (ii) 10 years of service with the Company or its subsidiaries.

(c) *Other Termination Provisions.* In the event a Participant's employment with the Company is terminated due to the Participant's reduction-in-force (as determined in the sole discretion of the Committee), termination triggering payment under the Flowserve Corporation

Executive Officer Severance Plan (as the same may be amended), or if a Participant is reassigned to a position not eligible for Plan participation, and such termination or reassignment occurs in the final year of the Performance Cycle, then on the Vesting Date the Participant (or the Participant's estate) shall be entitled to receive a number of shares of Common Stock equal to (i) the number of shares of Common Stock that would have been payable to such Participant if he or she had continued to provide services through the end of the Performance Cycle as determined by the Committee in accordance with Paragraph 2, multiplied by (ii) a fraction, the numerator of which is the number of full months (counting the month in which the Participant's termination of employment occurs as a full month) during the Performance Cycle that the Participant was employed by the Company, and the denominator of which is the total number of months in the Performance Cycle.

4. *Non-Competition, Non-Solicitation and Non-Recruitment Covenants*

(a) Participant acknowledges that that he or she has become and will continue to become familiar with new and on-going Confidential Information (as defined below). Participant recognizes and agrees that: (i) the Company has devoted a considerable amount of time, effort and expense to develop its Confidential Information and business goodwill; (ii) the Confidential Information and the Company's business goodwill are valuable assets to the Company; and (iii) any unauthorized use or disclosure of the Company's Confidential Information would cause irreparable harm to the Company, including damage to the Company's business goodwill, for which there is no adequate remedy at law. For these reasons, Participant agrees that, to protect the Company's Confidential Information (as defined below) and business goodwill, it is necessary to enter into the following restrictive covenants. As used in this Paragraph 4, references to the "**Company**" refer to the Company and its Subsidiaries.

Participant, whether individually or as a principal, partner, stockholder, manager, agent, consultant, contractor, employee, lender, investor, volunteer, director or officer of any corporation or association or in any other manner or capacity whatsoever, agrees that during Participant's employment by the Company and for a period of one (1) year following the date on which Participant's employment ceases (for whatever reason) (the "**Restricted Period**"), Participant shall not, whether directly or indirectly, without the express prior written consent of the Company:

(i) Non-Solicitation. Other than for the benefit of the Company during Participant's period of employment with or engagement by the Company, curtail the business of, interfere with the Company's

relationship with, solicit business from, attempt to transact business with or transact business with any customer or prospective customer of the Company with whom the Company transacted business or solicited within the preceding twenty-four (24) months, and which either: (A) Participant contacted, called on, serviced, did business with or had contact with during Participant's employment or that Participant attempted to contact, call on, service, or do business with during Participant's employment or engagement; (B) Participant became acquainted with or dealt with, for any reason, as a result of Participant's employment or engagement by the Company; or (C) Participant received Confidential Information regarding during Participant's employment with or engagement by the Company. This restriction applies only to business that is in the scope of services or products provided by the Company.

(ii) Non-Recruitment. Hire, recruit, solicit for employment, induce or encourage to leave the employment or engagement by the Company, or otherwise cease their employment or engagement with the Company, on behalf of Participant or any other person or entity, any current employee or independent contractor of the Company or its subsidiaries (including those employees on vacation and approved leaves of absence, disability or other approved absence with the legal right to return to employment) or any former employee or independent contractor of the Company or its subsidiaries whose employment or engagement ceased no more than three (3) months earlier.

(iii) Non-Competition. Become employed by, advise, perform services, establish, have any ownership interest in, invest in or otherwise engage in any capacity, whether directly or indirectly, with a Competing Business in the Restricted Area. For purposes of this Agreement, "**Competing Business**" means any entity or business that is in the business of providing flow management products and related repair and/or replacement services. Because the scope and nature of the Company's business is international in scope and Participant's job duties are international in scope, the "**Restricted Area**" is worldwide. Nothing in this Paragraph 4(b)(i) shall prohibit Participant's direct or indirect ownership of securities of any business traded on any national securities exchange or an inter-dealer quotation system, on condition that: Participant does not, directly or indirectly, own three percent (3%) or more of any class of securities of such business; such ownership is for investment purposes only; and Participant does not have the right, and is not a member of a group that has the right, through the ownership of an equity interest, voting securities or otherwise, to direct the activities of such business.

For purposes of this Agreement, “**Confidential Information**” includes any trade secrets or confidential or proprietary information of the Company and its affiliates, including, but not limited to, the following:

- (i) information concerning customers, clients, marketing, business and operational methods of the Company and its customers or clients, contracts, financial or other data, technical data, e-mail and other correspondence or any other confidential or proprietary information possessed, owned or used by the Company;
 - (ii) business records, product construction, product specifications, financial information, audit processes, pricing, business strategies, marketing and promotional practices (including internet-related marketing) and management methods and information;
 - (iii) financial data, strategies, systems, research, plans, reports, recommendations and conclusions;
 - (iv) names, arrangements with, or other information relating to, any of the Company’s customers, clients, suppliers, financiers, owners, representatives and other persons who have business relationships with the Company or who are prospects for business relationships with the Company; and
 - (v) any non-public matter or thing obtained or ascertained by Participant through Participant’s association with the Company, the use or disclosure of which may reasonably be construed to be contrary to the best interests of any the Company.
- (b) *Remedies.* Participant acknowledges that the restrictions contained in this Paragraph 4, in view of the nature of the Company’s business, are reasonable and necessary to protect the Company’s legitimate business interests and business goodwill and that any violation of these restrictions would result in irreparable injury to the Company. The existence of any claim or cause of action by Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the restrictive covenants contained in Paragraph 4.
- (i) *Forfeiture by Participant.* If Participant breaches any restriction in this Paragraph 4, the Company shall be entitled to, in addition to any legal remedies available to the Company, undertake any or all of the following: (A) require Participant to forfeit any Performance Shares (whether then vested or unvested) that have not yet been converted into Common Stock (or an equivalent cash payment) as of the date of such violation; (B)

require Participant to immediately sell to the Company a number of shares of Common Stock equal to the gross number of Performance Shares converted into Common Stock hereunder, for the then-current Fair Market Value of such shares; (C) require Participant to immediately pay to the Company any cash settlement of Performance Shares hereunder or gain that the Participant realized on any on any sale of shares of Common Stock issued in settlement of the Performance Shares granted hereunder; (D) discontinue future grants of any and all equity awards under any equity incentive plan in which Participant may participate; (E) recover damages incurred by the Company as a result of the breach; and (F) recover its attorneys' fees, costs and expenses incurred in connection with such actions. To the extent that the provisions of this Paragraph 4 are inconsistent with the terms of any other agreement between the Company and the Participant, the Company and Participant agree that the provisions of this Paragraph 4 shall control.

(ii) *Injunctive Relief and Damages.* Participant acknowledges and agrees that a breach of Paragraph 4 will result in irreparable harm and continuing damage to the Company, and that money damages and the remedies set forth in Paragraph 4(b)(i) above would be not be sufficient remedies to the Company for any such breach or threatened breach. Therefore, Participant agrees that the Company shall also be entitled to a temporary restraining order and injunctive relief restraining Participant from the commission of any breach of Paragraph 4. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including, without limitation, the remedies set forth in Paragraph 4(b)(i) or the recovery of money damages, attorneys' fees and costs.

(c) *Tolling.* If Participant violates any of the restrictions contained in this Paragraph 4, the Restricted Period will be suspended and will not run in favor of Participant until such time that Participant cures the violation to the satisfaction of the Company.

5. *Limitation of Rights*

Nothing in this Agreement or the Plan shall be construed to:

(a) give the Participant any right to be awarded any further Performance Shares or any other Award in the future, even if Performance Shares or other Awards are granted on a regular or repeated basis, as grants of Performance Shares and other Awards are completely voluntary and made solely in the discretion of the Committee;

(b) give the Participant or any other person any interest in any fund or in any specified asset or assets of the Company or any Subsidiary; or

(c) confer upon the Participant the right to continue in the employment or service of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time or for any reason.

6. Data Privacy

By execution of this Agreement, the Participant acknowledges that he or she has read and understands the Flowserve Corporation Employee Data Protection Policy and Flowserve's Privacy Policy. The Participant hereby consents to the collection, processing, transmission, use and electronic and manual storage of his or her personal data by the Company, Wells Fargo Shareowner Services ("**Wells Fargo**") and Merrill Lynch & Co., Inc. ("**Merrill Lynch**") in order to facilitate Plan administration. The Participant understands and acknowledges that this consent applies to all personally-identifiable data relevant to Plan administration, including the Participant's name, home address, work email address, job title, GEMS ID, National Identification Number or Social Security Number, employee status, work location, work phone number, tax class, previous equity grant transaction data and compensation data. The Participant further agrees to furnish to the Company any additional information requested by the Company to enable it to comply with any reporting or other requirement imposed upon the Company by or under any applicable statute or regulation.

The Participant understands that for purposes of Plan administration, the Participant's personal data will be collected and processed at 5215 N. O'Connor Blvd, Suite 2300, Irving, Texas (USA), and transferred to Wells Fargo at 161 North Concord Exchange, South St. Paul, Minnesota (USA) and Merrill Lynch at 4 World Financial Center, 250 Vesey St., New York, New York (USA).

7. Prerequisites to Benefits

Neither the Participant, nor any person claiming through the Participant, shall have any right or interest in the Performance Shares awarded hereunder, unless and until all the terms, conditions and provisions of this Agreement and the Plan which affect the Participant or such other person shall have been complied with as specified herein.

8. Delivery of Shares

No shares of Common Stock shall be delivered to the Participant upon conversion of the Performance Shares into shares of Common Stock until:

(a) all the applicable taxes required to be withheld have been paid or withheld in full;

(b) the approval of any governmental authority required in connection with the Performance Shares, or the issuance of shares of Common Stock hereunder under has been received by the Company; and

(c) if required by the Committee, the Participant has delivered to the Committee an Investment Letter in form and content satisfactory to the Company as provided in Paragraph 10 hereof.

9. *Successors and Assigns*

This Agreement shall bind and inure to the benefit of and be enforceable by the Participant, the Company and their respective permitted successors and assigns (including personal representatives, heirs and legatees), except that the Participant may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

10. *Securities Act*

The Company will not be required to deliver any shares of Common Stock pursuant to this Agreement if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933, as amended (the “**Securities Act**”) or any other applicable federal or state securities laws or regulations. The Committee may require that the Participant, prior to the issuance of any such shares, sign and deliver to the Company a written statement, which shall be in a form and contain content acceptable to the Committee, in its sole discretion (“**Investment Letter**”):

(a) stating that the Participant is acquiring the shares for investment and not with a view to the sale or distribution thereof;

(b) stating that the Participant will not sell any shares of Common Stock that the Participant may then own or thereafter acquire except either:

(i) through a broker on a national securities exchange, or

(ii) with the prior written approval of the Company; and

(c) containing such other terms and conditions as counsel for the Company may reasonably require to assure compliance with the Securities Act or other applicable federal or state securities laws and regulations.

11. *Federal and State Taxes*

(a) Any amount of Common Stock or cash that is payable or transferable to the Participant hereunder may be subject to the payment of or reduced by any amount or amounts which the Company is required to withhold under the then applicable provisions of the laws of the jurisdiction where the Participant is employed, and, if applicable, the Internal Revenue Code

of 1986, as amended (the “**Code**”), or its successors, or any other foreign, federal, state or local tax withholding requirement. When the Company is required to withhold any amount or amounts under the applicable provisions of any foreign, federal, state or local requirement or the Code, the Company shall withhold from the Common Stock to be issued to the Participant a number of shares necessary to satisfy the Company’s withholding obligations. The number of shares of Common Stock to be withheld shall be based upon the Fair Market Value of the shares on the date of withholding.

(b) Notwithstanding Paragraph 11(a) above, if the Participant elects, and the Committee agrees, the Company’s withholding obligations may instead be satisfied as follows:

(i) the Participant may direct the Company to withhold cash that is otherwise payable to the Participant;

(ii) the Participant may deliver to the Company a sufficient number of shares of Common Stock then owned by the Participant for a period of at least six (6) months to satisfy the Company’s withholding obligations, based on the Fair Market Value of the shares as of the date of withholding;

(iii) the Participant may deliver sufficient cash to the Company to satisfy its withholding obligations; or

(iv) any combination of the alternatives described in Paragraphs 11(b)(i) through 11(b)(iii) above.

(c) Authorization of the Participant to the Company to withhold taxes pursuant to one or more of the alternatives described in Paragraph 11(b) above must be in a form and content acceptable to the Committee. The payment or authorization to withhold taxes by the Participant shall be completed prior to the delivery of any shares pursuant to this Agreement. An authorization to withhold taxes pursuant to this provision will be irrevocable unless and until the tax liability of the Participant has been fully paid.

12. *Copy of Plan*

By the electronic acceptance of this Agreement, the Participant acknowledges receipt of a copy of the Plan.

13. *Administration*

This Agreement is subject to the terms and conditions of the Plan. The Plan is administered by the Committee in accordance with its terms. The Committee has sole and complete discretion with respect to all matters reserved to it by the Plan and the decisions of the majority of the Committee with respect to the Plan and this Agreement shall be final and binding upon the Participant and the Company. Neither the Company nor the members of the Board or the Committee will be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Performance Shares granted hereunder. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

14. Adjustment of Number of Performance Shares

The number of Performance Shares granted hereunder shall be subject to adjustment in accordance with Articles 12 and 13 of the Plan.

15. Non-transferability

The Performance Shares granted by this Agreement are not transferable by the Participant other than by will or pursuant to applicable laws of descent and distribution. The Performance Shares and any rights and privileges in connection therewith, cannot be transferred, assigned, pledged or hypothecated by operation of law, or otherwise, and is not otherwise subject to execution, attachment, garnishment or similar process. In the event of such occurrence, this Agreement will automatically terminate and will thereafter be null and void.

16. Remedies

The Company shall be entitled to recover from the Participant reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of this Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

17. Information Confidential

As partial consideration for the granting of the Award hereunder, the Participant hereby agrees to keep confidential all information and knowledge, except that which has been disclosed in any public filings required by law, that the Participant has relating to the terms and conditions of this Agreement. However, such information may be disclosed as required by law and may be given in confidence to the Participant's spouse and tax and financial advisors. In the event any breach of this promise comes to the attention of the Company, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to the Participant, as a factor weighing against the advisability of granting any such future award to the Participant.

18. Amendments

Except as provided otherwise in the Plan or below, this Agreement may be amended only by a written agreement executed by the Company and the Participant. Notwithstanding the foregoing, the Board or the Committee may amend this Agreement to the extent necessary or advisable in

light of any addition to or change in any federal or state, tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Award or to the extent that such amendment is not materially adverse to the Participant.

19. Governing Law

This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas (excluding any conflict of laws, rule or principle of Texas law that might refer the governance, construction, or interpretation of this Plan to the laws of another state).

20. Severability

If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included.

21. Headings

The titles and headings of paragraphs are included for convenience of reference only and are not to be considered in construction of the provisions of this Agreement.

22. Word Usage

Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

23. Execution of Receipts and Releases

Any payment of cash or any issuance or transfer of shares of Common Stock or other property to the Participant or to the Participant's legal representative, heir, legatee or distributee, in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims of such persons under this Agreement. The Company may require the Participant or the Participant's legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a release and receipt therefor in such form as it shall determine.

24. Electronic Delivery and Acceptance.

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

25. *Insider Trading Restrictions/Market Abuse Laws.* The Participant may be subject to insider trading restrictions and/or market abuse laws based on the exchange on which the shares of Common Stock are listed and in applicable jurisdictions including the United States and the Participant's country or his or her broker's country, if different, which may affect the Participant's ability to accept, acquire, sell or otherwise dispose of shares, Performance Shares or rights linked to the value of shares of Common Stock (e.g., Dividend Equivalents) during such times as the Participant is considered to have "inside information" regarding the Company (as defined by the laws in applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before he or she possessed inside information. Furthermore, the Participant could be prohibited from (i) disclosing the inside information to any third party, which may include fellow employees and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. The Participant acknowledges that it is the Participant's responsibility to comply with any applicable restrictions, and the Participant should speak with his or her personal legal advisor on this matter.

26. *Participant Acceptance.* The Participant must accept the terms and conditions of this Agreement either electronically through the electronic acceptance procedure established by the Company or through a written acceptance delivered to the Company in a form satisfactory to the Company. In no event shall any shares of Common Stock be issued (or other securities or property distributed) under this Agreement in the absence of such acceptance. By accepting the Performance Shares, Participant agrees that the Performance Shares are granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to accepting this Agreement and fully understands all provisions of the Plan and this Agreement.

The Company and the Participant are executing this Agreement effective as of the Date of Grant set forth in the introductory clause.

FLOWSERVE CORPORATION

Chief Executive Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, R. Scott Rowe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020 of Flowserve Corporation;
2. Based on my knowledge, this 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

/s/ R. Scott Rowe

R. Scott Rowe

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Amy B. Schwetz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020 of Flowserve Corporation;
2. Based on my knowledge, this 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

/s/ Amy B. Schwetz

Amy B. Schwetz

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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

I, R. Scott Rowe, President and Chief Executive Officer of Flowserve Corporation (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 to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly 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 Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: July 30, 2020

/s/ R. Scott Rowe

President and Chief Executive Officer
(Principal Executive Officer)

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

I, Amy B. Schwetz, Senior Vice President and Chief Financial Officer of Flowserve Corporation (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 to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly 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 Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: July 30, 2020

/s/ Amy B. Schwetz

Amy B. Schwetz

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)