FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended September 30, 2001   Commission File Number 1-13179

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

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

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

222 W. Las Colinas Blvd., Suite 1500, Irving, Texas 75039
(Address of principal executive offices) (Zip Code)

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

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

YES X   NO

Shares of Common Stock, $1.25 par value,
outstanding as of October 26, 2001 37,860,447

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
Sales	$ 469,605	$ 412,105
Cost of sales	317,291	281,983
Gross profit	152,314	130,122
Selling, general and administrative expense	100,998	95,865
Integration expense	13,757	10,470
Restructuring expense	--	17,102
Operating income	37,559	6,685
Net interest expense	28,326	23,423
Other expense, net	119	299
Net earnings (loss) before income taxes	9,114	(17,037)
Provision (benefit) for income taxes	3,281	(6,103)
Net earnings (loss) before extraordinary items	5,833	(10,934)
Extraordinary items, net of tax	--	2,067

Net earnings (loss)	$ 5,833	$ (13,001)
Net earnings (loss) per share (basic and diluted):		
Before extraordinary items	$ 0.15	$ (0.29)
Extraordinary items, net of tax	--	(0.05)
Net earnings (loss)	$ 0.15	$ (0.34)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Three Months Ended September 30,	
	2001	2000
Net earnings (loss)	$ 5,833	$ (13,001)
Other comprehensive income (expense):		
Foreign currency translation adjustments	32,822	(23,600)
Hedging transactions, net of tax benefit of $295 (See footnote 4)	(331)	--
Other comprehensive income (expense)	32,491	(23,600)
Comprehensive income (loss)	$ 38,324	$ (36,601)

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Nine Months Ended September 30,	
	2001	2000
Sales	$ 1,378,219	$ 996,567
Cost of sales	932,653	664,054
Gross profit	445,566	332,513
Selling, general and administrative expense	304,674	250,437
Integration expense	49,840	10,470
Restructuring expense	--	17,102
Operating income	91,052	54,504
Net interest expense	91,497	36,312
Other income, net	(281)	(2,174)
Net (loss) earnings before income taxes	(164)	20,366

(Benefit) provision for income taxes	(59)	6,801
Net (loss) earnings before extraordinary items	(105)	13,565
Extraordinary items, net of tax	--	2,067
Net (loss) earnings	$ (105)	$ 11,498
Net (loss) earnings per share (basic and diluted):		
Before extraordinary items	$ --	$ 0.35
Extraordinary items, net of tax	--	(0.05)
Net earnings	$ --	$ 0.30

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Nine Months Ended September 30,	
	2001	2000
Net (loss) earnings	$ (105)	$ 11,498
Other comprehensive (expense) income:		
Foreign currency translation adjustments	(20,618)	(39,803)
Cumulative effect of change in accounting principle, net of tax of $472 (Adoption of SFAS 133 - See footnote 4)	840	--
Hedging transactions, net of tax benefit of $2,695 (See footnote 4)	(4,538)	--
Other comprehensive expense	(24,316)	(39,803)
Comprehensive loss	$ (24,421)	$ (28,305)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	September 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,856	$ 42,341
Accounts receivable, net	469,164	487,274
Inventories	343,241	305,958
Current deferred tax asset	41,407	39,726
Prepaid expenses	26,832	22,753
Total current assets	905,500	898,052
Property, plant and equipment, net	364,768	405,412
Goodwill, net	537,000	514,441
Other intangible assets, net	133,090	131,330

Other assets	158,184	160,908
Total assets	$ 2,098,542	$ 2,110,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 157,174	$ 172,366
Accrued liabilities	197,261	243,553
Long-term debt due within one year	36,613	18,098
Total current liabilities	391,048	434,017
Long-term debt due after one year	1,158,850	1,111,108
Post-retirement benefits and deferred items	259,065	260,107
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value		
Shares authorized - 1,000		
Shares issued and outstanding - None	--	--
Common stock, $1.25 par value		
Shares authorized - 120,000		
Shares issued and outstanding - 41,484	51,856	51,856
Capital in excess of par value	65,624	65,785
Retained earnings	357,390	357,495
	474,870	475,136
Treasury stock at cost - 3,652 and 4,048 shares	(83,529)	(92,545)
Deferred compensation obligation	6,778	6,544
Accumulated other comprehensive loss	(108,540)	(84,224)
Total shareholders' equity	289,579	304,911
Total liabilities and shareholders' equity	$ 2,098,542	$ 2,110,143

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Nine Months Ended September 30,	
	2001	2000
Cash flows - Operating activities:		
Net (loss) earnings	$ (105)	$ 11,498
Adjustments to reconcile net (loss) earnings to net cash (used) provided by operating activities:		
Depreciation	36,752	25,866
Amortization	18,962	8,544
Net gain on the sale of fixed assets	(436)	(14)
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	8,947	(11,369)
Inventories	(48,029)	(20,781)
Prepaid expenses	(2,067)	11,371
Other assets	(3,413)	(919)
Accounts payable	(17,459)	(8,045)
Accrued liabilities	(56,217)	(1,190)
Income taxes	(3,199)	(5,784)
Post-retirement benefits and deferred items	(5,687)	14,515
Net deferred taxes	(684)	8,532
Net cash flows (used) provided by operating activities	(72,635)	32,224
Cash flows - Investing activities:		
Capital expenditures	(28,345)	(16,419)
Disposal of assets	8,453	80
Payment for acquisitions, net of cash acquired	--	(786,356)

Net cash flows used by investing activities	(19,892)	(802,695)
Cash flows - Financing activities:		
Payments of long-term debt	(17,141)	(426,706)
Proceeds from long-term debt	86,170	1,271,753
Payment of debt issuance costs	--	(46,474)
Proceeds from stock option exercises	9,097	637
Net cash flows provided by financing activities	78,126	799,210
Effect of exchange rate changes on cash and cash equivalents	(3,084)	(2,377)
Net change in cash and cash equivalents	(17,485)	26,362
Cash and cash equivalents at beginning of year	42,341	30,463
Cash and cash equivalents at end of period	$ 24,856	$ 56,825

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

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

1. Accounting Policies - Basis of Presentation

The accompanying consolidated balance sheet as of September 30, 2001, and the related consolidated statements of income and comprehensive income for the three months and nine months ended September 30, 2001 and 2000, and the consolidated statements of cash flows for the nine months ended September 30, 2001 and 2000, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such consolidated financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 2000 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year. Certain amounts in 2000 have been reclassified to conform with the 2001 presentation.

2. Inventories

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

Inventories and the method of determining costs were:

	September 30, 2001	December 31, 2000
Raw materials	$ 61,091	$ 51,981
Work in process and finished goods	374,632	330,060
Less: Progress billings	(54,408)	(38,605)
	381,315	343,436
LIFO reserve	(38,074)	(37,478)

Net inventory	$ 343,241	$ 305,958
Percent of inventory accounted for by LIFO	63%	67%
Percent of inventory accounted for by FIFO	37%	33%

3. Recent Accounting Developments

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Additionally, SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and is effective for the Company on January 1, 2002. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period of intangible assets will no longer be limited to forty years.

The Company is currently assessing the impact of SFAS 142 and has not yet determined the full effects these statements will have on its consolidated financial position or results of operations. However, the Company has estimated that the pretax reduction in annual amortization expense will total approximately $19 million.

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

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for the Company on January 1, 2002. The Company is currently assessing the impact of SFAS No. 144 and has not yet determined the effects, if any, it will have on its consolidated financial position or results of operations.

4. Adoption of SFAS No. 133 - Accounting for Derivative Instruments and Hedging Activities

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

The Company reclassified the transition adjustment relating to foreign currency forward contracts to earnings during the first quarter of 2001 as those contracts settled. At September 30, 2001, the fair value of the hedging instruments is a liability of $6.0 million.

Hedging related transactions recorded to other comprehensive income during

2001 were:

	Other Comprehensive (Income) Loss
Record fair market value of hedges, as of January 1, 2001, net of deferred taxes of $472	$ (840)
Reclassify to earnings amount necessary to offset swap agreement gains for the nine months ended September 30, 2001, net of deferred taxes of $269	(499)
Reclassify to earnings amount necessary to offset foreign currency gains for nine months ended September 30, 2001, net of deferred taxes of $11	(36)
Change in fair market value of swap agreements as of September 30, 2001, net of deferred taxes of $2,285	3,932
Change in fair market value of foreign currency forward contracts as of September 30, 2001, net of deferred taxes of $690	1,141
Balance as of September 30, 2001	$ 3,698

The Company expects that within the next twelve months it will reclassify as expense $1.0 million, net of deferred tax, of the amount recorded in accumulated other comprehensive income for contracts that will settle during the period.

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk management and derivatives policy statement outlining the

conditions in which the Company can enter into hedging or forward transactions. As of September 30, 2001, the Company has approximately $58.2 million of notional amount in outstanding contracts with third parties. As of September 30, 2001, the maximum length of any forward contract currently in place is about 20 months.

The Company does not believe it has any material credit risk due to nonperformance by counterparties to financial instruments in so far as its policies in that regard limit counterparties to those with the highest credit ratings. The Company expects all counterparties will meet their obligations given their high credit ratings.

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. As of September 30, 2001, the Company had $150 million of notional amount in outstanding interest rate swaps with third parties. As of September 30, 2001, the maximum length of any interest rate contract currently in place is about 5 years.

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (2) a foreign currency fair value or cash flow hedge (a "foreign currency" hedge). Changes in the fair value of a derivative that is highly effective and is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a derivative that is highly effective, designated and qualifies as a foreign currency hedge are recorded in other comprehensive income, since it satisfies the criteria for a cash flow hedge. As of September 30, 2001, all hedges outstanding were highly effective.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the inception of the hedge and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedge item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remaining in accumulated other comprehensive income is reclassified into earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings.

5. Acquisition

In August 2000, the Company completed the acquisition of Ingersoll-Dresser Pump Company (IDP), a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. The transaction, which was accounted for as a purchase, was financed with a combination of secured bank financing and Senior Subordinated Notes (the "Notes"). Upon closing of the transaction, the Company's existing bank debt was also refinanced.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of the acquisition. These allocations include $137.6 million for intangibles and $409.4 million recorded as goodwill.

The operating results of IDP have been included in the consolidated statements of income from the date of acquisition.

The table below reflects unaudited pro forma information of the Company and IDP as if the acquisition had taken place at the beginning of fiscal year 2000, including purchase accounting adjustments and estimated financing costs.

Pro Forma
Condensed Consolidated Statement of Operations

Nine Months Ended

	September 30, 2000
Sales	$ 1,418,396
Cost of sales	992,889
Gross profit	425,507
Selling, general and administrative expense	342,619
Restructuring and integration expense	27,572
Operating income	55,316
Interest expense, net	96,925
Other income, net	(944)
Loss before income taxes	(40,665)
Benefit for income taxes	(14,639)
Loss before extraordinary items	(26,026)
Extraordinary items, net of income taxes	2,067
Net loss	$ (28,093)
Net loss per share (basic and diluted):	
Before extraordinary items	$ (0.69)
Net loss	$ (0.74)
Other Financial Data:	
Depreciation and amortization	$ 58,823
Capital expenditures	21,685

Pro forma adjustments include adjustments to reflect obligations and costs of the seller which were contractually not assumed by the Company and incremental depreciation and amortization for adjustments of property, plant and equipment and intangible assets to fair value and goodwill recognized in purchase accounting. A more detailed explanation of the nature of the pro forma adjustments can be found in the Form 8-K filed by the Company

with the Securities and Exchange Commission on May 31, 2001.

The pro forma information does not purport to represent what the Company's results of operations actually would have been had the acquisition occurred at the beginning of fiscal year 2000, or to project the Company's results of operations for any future period.

6. Restructuring and Acquisition Related Charges

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, are expected to result in the net reduction of approximately 1,100 positions. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel.

The Company currently estimates that the costs associated with the restructuring portion of the program will be approximately $68 million. The Company had originally estimated these costs to be approximately $61 million. The increase from the original estimate is primarily due to updated actuarial information for post-retirement and pension expense relating to a plant closure. This increase was offset by a non-cash reclassification from the restructuring accrual to post-retirement benefits and pension liabilities which resulted in a net reduction to the accrual of $8.8 million during the fourth quarter of 2000. In the third quarter of 2001, the Company recorded a non-cash reclassification from the restructuring accrual to pension liabilities which resulted in a net reduction to the accrual of $2.1 million.

The Company's current estimate of $68 million in restructuring cost is comprised of approximately $44 million which relates to the IDP operations acquired, of which $28 million has been capitalized in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $24 million relates to the Flowserve operations and was recorded as restructuring expense in the third quarter of 2000. As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. Since this facility had been previously targeted for closure in the fourth quarter of 1999, this resulted in a non-cash reduction of the existing 1999 restructuring reserve of $5.3 million in the third quarter of 2000.

During the first nine months of 2001, the Company also incurred $49.8 million in integration costs in conjunction with this program. The Company expects to substantially complete its integration activities by the end of 2001.

As of September 30, 2001, the program had resulted in a net reduction of approximately 1,100 employees.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	$ 18,486	$ 12,398	$ 30,884
Cash expenditures	(5,729)	(4,029)	(9,758)
Balance at March 31, 2001	$ 12,757	$ 8,369	$ 21,126
Cash expenditures	(3,277)	(2,505)	(5,782)
Balance at June 30, 2001	$ 9,480	$ 5,864	$ 15,344
Cash expenditures	(3,477)	(315)	(3,792)
Non-cash reduction	(2,100)	--	(2,100)
Balance at September 30, 2001	$ 3,903	$ 5,549	$ 9,452

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a reduction in workforce at those and other locations.

During the third quarter of 2000, the restructuring reserve was reduced by $5.3 million. This was the result of plans to sell the aforementioned Tulsa facility that had been previously targeted for closure.

The 1999 restructuring program resulted in a net reduction of 261 employees at a cost of $12.9 million. In addition, exit costs associated with the facilities closings were $3.0 million.

Expenditures charged to the 1999 restructuring reserve were:

Severance	Other Exit Costs	Total

Balance at December 24, 1999	$ 12,900	$ 2,960	$ 15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	$ 12,798	$ 2,960	$ 15,758
Cash expenditures	(6,766)	(1,932)	(8,698)
Non-cash reduction	(4,364)	(1,028)	(5,392)
Balance at December 31, 2000	$ 1,668	$ --	$ 1,668
Cash expenditures	(495)	--	(495)
Balance at March 31, 2001	$ 1,173	$ --	$ 1,173
Cash expenditures	(682)	--	(682)
Balance at June 30, 2001	$ 491	$ --	$ 491
Cash expenditures	(491)	--	(491)
Balance at September 30, 2001	$ --	$ --	$ --

7. Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
Net earnings (loss)	$ 5,833	$ (13,001)
Denominator for basic earnings per share - weighted average shares	38,205	37,799
Effect of dilutive securities	494	--
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	38,699	37,799
Earnings (loss) per share - basic:		
Before extraordinary items	$ 0.15	$ (0.29)
Extraordinary items	--	(0.05)
Earnings (loss) per share	$ 0.15	$ (0.34)
Earnings (loss) per share - diluted:		
Before extraordinary items	$ 0.15	$ (0.29)
Extraordinary items	--	(0.05)
Earnings (loss) per share	$ 0.15	$ (0.34)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net (loss) earnings	$ (105)	$ 11,498
Denominator for basic earnings per share - weighted average shares	37,986	37,807
Effect of dilutive securities	--	12
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	37,986	37,819
Earnings (loss) per share - basic:		
Before extraordinary items	$ --	$ 0.35
Extraordinary items	--	(0.05)
Earnings per share	$ --	$ 0.30
Earnings (loss) per share - diluted:		
Before extraordinary items	$ --	$ 0.35
Extraordinary items	--	(0.05)
Earnings per share	$ --	$ 0.30

Options to purchase 1,095 shares of common stock were outstanding at September 30, 2001 that were not included in the computation of diluted EPS for the three month period ended September 30, 2001 because the options' exercise price was greater than the average market price of the common stock.

For the three months ended September 30, 2000 and the nine months ended September 30, 2001, the effect of dilutive securities is excluded from the computation of diluted net loss per share since the Company incurred a net loss during those periods. Therefore, the amounts reported for basic and diluted net loss per ordinary share were the same.

Options to purchase 3,743 shares of common stock were outstanding at September 30, 2000 that were not included in the computation of diluted EPS for the nine month period ended September 30, 2000 because the options' exercise price was greater than the average market price of the common stock.

8. Guarantor and Nonguarantor Financial Statements

In connection with the IDP acquisition and as part of the related financing, the Company and newly formed Dutch subsidiary, Flowserve Finance B.V., issued an aggregate of $375 million of U.S. dollar-denominated senior subordinated notes (the U.S. dollar Notes and the Euro Notes), in private placements pursuant to Rule 144A and Regulation S. The U.S. dollar Notes and the Euro Notes are general unsecured obligations of the Company and Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries and, in the case of the Euro Notes, by the Company.

The following consolidating financial information presents:

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

(2) Consolidating balance sheet as of December 31, 2000 and the related statements of income and cash flows for the nine months ended September 30, 2000, of (a) Flowserve Corporation, the parent, (b) Flowserve Finance B.V., (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries, and the Company on a consolidated basis, and

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

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

Effective January 1, 2001, the Company effected a domestic legal reorganization. This primarily resulted in a reclassification between the parent and guarantor subsidiaries.

(Amounts in thousands)

CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2001
(unaudited)

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Sales	$ --	$ --	$ 876,873	$ 591,326	$ (89,980)	$ 1,378,219
Cost of sales	--	--	621,030	401,603	(89,980)	932,653
Gross profit	--	--	255,843	189,723	--	445,566
Selling, general and administrative expense	--	--	213,455	91,219	--	304,674
Integration expense	--	--	39,122	10,718	--	49,840
Operating income	--	--	3,266	87,786	--	91,052
Net interest expense	14,997	1,730	64,752	10,018	--	91,497
Other (income) expense, net	(579)	2	(22,306)	22,602	--	(281)
Equity in loss of subsidiaries	9,606	--	--	--	(9,606)	--
Net (loss) earnings before income taxes	(24,024)	(1,732)	(39,180)	55,166	9,606	(164)
(Benefit) provision for income taxes	(23,919)	--	(14,000)	37,860	--	(59)
Net (loss) earnings	$ (105)	$ (1,732)	$ (25,180)	$ 17,306	$ 9,606	$ (105)

(Amounts in thousands)

CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2000
(unaudited)

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Sales	$ 118,626	$ --	$ 565,437	$ 374,302	$ (61,798)	$ 996,567
Cost of sales	86,637	--	388,598	250,617	(61,798)	664,054
Gross profit	31,989	--	176,839	123,685	--	332,513
Selling, general and administrative expense	39,351	--	135,742	75,344	--	250,437
Integration expense	4,242	--	5,844	384	--	10,470
Restructuring expense	6,846	--	7,649	2,607	--	17,102
Operating (loss) income	(18,450)	--	27,604	45,350	--	54,504
Net interest expense	7,322	129	25,915	2,946	--	36,312
Other (income) expense, net	(955)	--	(10,996)	9,777	--	(2,174)
Equity in earnings of subsidiaries	(28,225)	--	--	--	28,225	--
Net earnings (loss) before income taxes	3,408	(129)	12,685	32,627	(28,225)	20,366
(Benefit) provision for income taxes	(9,223)	--	5,299	10,725	--	6,801
Net earnings (loss) before extraordinary items	12,631	(129)	7,386	21,902	(28,225)	13,565
Extraordinary items, net of tax	1,133	--	934	--	--	2,067
Net earnings (loss)	$ 11,498	$ (129)	$ 6,452	$ 21,902	$ (28,225)	$ 11,498

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)
CONSOLIDATING BALANCE SHEET
September 30, 2001
(unaudited)

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 30,319	$ (5,463)	$ 24,856
Intercompany receivables	58,250	--	62,557	87,477	(208,284)	--
Accounts receivable, net	--	--	263,552	205,612	--	469,164
Inventories	--	--	204,805	138,436	--	343,241
Current deferred tax asset	--	--	39,196	2,211	--	41,407
Prepaid expenses	--	--	14,821	12,011	--	26,832
Total current assets	58,250	--	584,931	476,066	(213,747)	905,500
Property, plant and equipment, net	--	--	203,244	161,524	--	364,768
Investment in subsidiaries	461,072	--	500,822	--	(961,894)	--
Intercompany receivables	863,770	87,161	17,143	31,065	(999,139)	--
Goodwill, net	--	--	429,829	107,171	--	537,000
Other intangible assets, net	--	--	116,841	16,249	--	133,090
Other assets	35,144	4,339	108,892	9,809	--	158,184
Total assets	$ 1,418,236	$ 91,500	$ 1,961,702	$ 801,884	$(2,174,780)	$ 2,098,542
Current liabilities:						
Accounts payable	$ 2,277	$ --	$ 73,225	$ 87,135	$ (5,463)	$ 157,174
Intercompany payables	15,670	2,207	82,969	107,438	(208,284)	--
Income taxes	(8,499)	--	11,049	(2,550)	--	--
Accrued liabilities	20,758	464	103,994	72,045	--	197,261
Long-term debt due within one year	36,611	--	2	--	--	36,613
Total current liabilities	66,817	2,671	271,239	264,068	(213,747)	391,048
Long-term debt due after one year	1,068,618	90,011	170	51	--	1,158,850
Intercompany payables	--	947	858,976	139,216	(999,139)	--
Post-retirement benefits and deferred items	--	--	199,981	59,084	--	259,065

Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common stock	51,856	--	2	182,331	(182,333)	51,856
Capital in excess of par value	65,624	--	349,411	72,990	(422,401)	65,624
Retained earnings (deficit)	357,390	(2,075)	283,192	139,904	(421,021)	357,390
	474,870	(2,075)	632,605	395,225	(1,025,755)	474,870
Treasury stock at cost	(83,529)	--	--	--	--	(83,529)
Deferred compensation obligation	--	--	6,778	--	--	6,778
Accumulated other comprehensive loss	(108,540)	(54)	(8,047)	(55,760)	63,861	(108,540)
Total shareholders' equity	282,801	(2,129)	631,336	339,465	(961,894)	289,579
Total liabilities and shareholders' equity	$ 1,418,236	$ 91,500	$ 1,961,702	$ 801,884	$(2,174,780)	$ 2,098,542

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)
CONSOLIDATING BALANCE SHEET
December 31, 2000

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 50,239	$ (7,898)	$ 42,341
Intercompany receivables	23,530	--	33,252	104,836	(161,618)	--
Accounts receivable, net	20,767	--	224,746	241,761	--	487,274
Inventories	10,432	--	181,258	114,268	--	305,958
Current deferred tax asset	--	--	38,765	961	--	39,726
Prepaid expenses	6,261	--	12,216	4,276	--	22,753
Total current assets	60,990	--	490,237	516,341	(169,516)	898,052
Property, plant and equipment, net	34,332	--	189,978	181,102	--	405,412
Investment in subsidiaries	784,893	--	443,092	--	(1,227,985)	--
Intercompany receivables	501,286	90,112	10,849	21,598	(623,845)	--
Goodwill, net	7,814	--	459,983	46,644	--	514,441
Other intangible assets, net	--	--	114,129	17,201	--	131,330
Other assets	52,991	4,865	97,861	5,191	--	160,908
Total assets	$ 1,442,306	$ 94,977	$ 1,806,129	$ 788,077	$ (2,021,346)	$ 2,110,143
Current liabilities:						
Accounts payable	$ 5,588	$ 1	$ 76,910	$ 97,766	$ (7,899)	$ 172,366
Intercompany payables	33,973	2,279	20,704	104,658	(161,614)	--
Income taxes	4,679	--	2,928	(7,607)	--	--
Accrued liabilities	13,443	111	120,729	110,202	(932)	243,553
Long-term debt due within one year	18,000	--	90	8	--	18,098
Total current liabilities	75,683	2,391	221,361	305,027	(170,445)	434,017
Long-term debt due after one year	1,018,063	92,958	2	85	--	1,111,108
Intercompany payables	131	--	468,840	154,873	(623,844)	--
Post-retirement benefits and deferred items	50,062	--	166,187	42,926	932	260,107
Shareholders' equity:						
Serial preferred stock	--	--	--	--	--	--
Common stock	51,856	--	2	197,582	(197,584)	51,856
Capital in excess of par value	65,785	--	676,035	89,489	(765,524)	65,785
Retained earnings (deficit)	357,495	(343)	285,998	138,332	(423,987)	357,495
	475,136	(343)	962,035	425,403	(1,387,095)	475,136
Treasury stock at cost	(92,545)	--	(613)	2,246	(1,633)	(92,545)
Deferred compensation obligation	--	--	6,544	--	--	6,544
Accumulated other comprehensive loss	(84,224)	(29)	(18,227)	(142,483)	160,739	(84,224)
Total shareholders' equity	298,367	(372)	949,739	285,166	(1,227,989)	304,911
Total liabilities and shareholders' equity	$ 1,442,306	$ 94,977	$ 1,806,129	$ 788,077	$ (2,021,346)	$ 2,110,143

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)
CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2001
(unaudited)

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Cash Flows - Operating Activities:						
Net (loss) earnings	$ (105)	$ (1,732)	$ (25,180)	$ 17,306	$ 9,606	$ (105)
Adjustments to reconcile net (loss) earnings to cash (used) provided by operating activities:						
Depreciation	--	--	21,688	15,064	--	36,752
Amortization	--	--	16,267	2,695	--	18,962
Net gain on sale of fixed assets	--	--	(87)	(349)	--	(436)
Change in operating assets and liabilities:						
Accounts receivable	(200)	--	(19,361)	28,508	--	8,947
Inventories	(5,759)	--	(10,264)	(32,006)	--	(48,029)
Intercompany receivable and payable	(35,016)	858	47,512	28,999	(42,353)	--
Prepaid expenses	877	--	(4,063)	1,119	--	(2,067)
Other assets	7,482	359	27,965	(39,219)	--	(3,413)
Accounts payable	4,376	--	(15,275)	(9,956)	3,396	(17,459)
Accrued liabilities	13,837	351	(33,770)	(36,635)	--	(56,217)
Income taxes	(13,481)	--	11,779	(1,497)	--	(3,199)
Post-retirement benefits and deferred items	(16,982)	--	(2,747)	14,042	--	(5,687)
Net deferred taxes	(238)	--	(2,759)	2,313	--	(684)
Net cash used (provided) by operating activities	(45,209)	(164)	11,705	(9,616)	(29,351)	(72,635)
Cash Flows - Investing Activities:						
Capital expenditures	--	--	(16,852)	(11,493)	--	(28,345)
Disposal of assets	--	--	5,162	3,291	--	8,453
Change in investments in subsidiaries	(32,748)	--	--	--	32,748	--
Net cash flows used by investing activities	(32,748)	--	(11,690)	(8,202)	32,748	(19,892)
Cash Flows - Financing Activities:						
Payments on long-term debt	(17,311)	--	--	170	--	(17,141)
Proceeds from long-term debt	86,170	--	--	--	--	86,170
Proceeds from stock option exercises	9,098	164	--	797	(962)	9,097
Net cash flows provided (used) by financing activities	77,957	164	--	967	(962)	78,126
Effect of exchange rate changes on cash	--	--	(15)	(3,069)	--	(3,084)
Net change in cash and cash equivalents	--	--	--	(19,920)	2,435	(17,485)
Cash and cash equivalents at beginning of year	--	--	--	50,239	(7,898)	42,341
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 30,319	$ (5,463)	$ 24,856

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)
CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2000
(unaudited)

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Cash Flows - Operating Activities:						

Net earnings (loss)	$ 11,498	$ (128)	$ 6,452	$ 21,901	$ (28,225)	$ 11,498
Adjustments to reconcile net earnings to cash (used) provided by operating activities:						
Depreciation	4,698	--	13,319	7,849	--	25,866
Amortization	351	--	6,248	1,945	--	8,544
Net (gain) loss on sale of fixed assets	--	--	87	(101)	--	(14)
Change in operating assets and liabilities, net of effects of acquisitions and dispositions:						
Accounts receivable	(6,501)	--	(7,788)	2,920	--	(11,369)
Inventories	9,271	--	(30,143)	91	--	(20,781)
Intercompany receivable and payable	(632,814)	(82,183)	399,184	(258,785)	574,598	--
Prepaid expenses	(2,121)	--	1,599	16,533	(4,640)	11,371
Other assets	28,421	(4,671)	(6,580)	(18,089)	--	(919)
Accounts payable	(1,177)	--	1,254	(6,598)	(1,524)	(8,045)
Accrued liabilities	12,071	38	19,588	(32,887)	--	(1,190)
Income taxes	(4,750)	--	(810)	(1,444)	1,220	(5,784)
Post-retirement benefits and deferred items	16,862	--	(2,074)	(273)	--	14,515
Net deferred taxes	--	--	14,605	(6,073)	--	8,532
Net cash (used) provided by operating activities	(564,191)	(86,944)	414,941	(273,011)	541,429	32,224
Cash Flows - Investing Activities:						
Capital expenditures	(5,650)	--	(5,263)	(5,506)	--	(16,419)
Disposal of assets	--	--	59	21	--	80
Payments for acquisitions, net of cash acquired	(560,312)	--	(226,044)	--	--	(786,356)
Net cash flows used in investing activities	(565,962)	--	(231,248)	(5,485)	--	(802,695)
Cash Flows - Financing Activities:						
Net (repayments) borrowings of short-term debt	4,396	--	(90)	(4,306)	--	--
Payment on long-term debt	(148,108)	--	(278,598)	--	--	(426,706)
Proceeds from long-term debt	1,184,804	86,949	--	--	--	1,271,753
Payment of debt issuance costs	(46,474)	--	--	--	--	(46,474)
Proceeds from stock option exercises	637	--	--	--	--	637
Other activity	134,898	--	94,106	312,033	(541,037)	--
Net cash flows provided (used) by financing activities	1,130,153	86,949	(184,582)	307,727	(541,037)	799,210
Effect of exchange rate changes on cash	--	(5)	--	(2,372)	--	(2,377)
Net change in cash and cash equivalents	--	--	(889)	26,859	392	26,362
Cash and cash equivalents at beginning of year	--	--	889	29,966	(392)	30,463
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 56,825	$ --	$ 56,825

9. Segment Information

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

Amounts classified as All Other include Corporate Headquarters costs and other minor entities that are not considered separate segments. The results for IDP are included in the Flowserve Pump Division and a portion of its service business in Flow Solutions Division from the date of acquisition. The Company evaluates segment performance and allocates resources based on profit or loss excluding integration and restructuring expenses (special items), interest expense, other income or expense, income taxes and extraordinary items. Intersegment sales and transfers are recorded at cost plus a profit margin. Minor reclassifications have been made to certain previously reported information to conform to the current business configuration.

Three months ended September 30, 2001	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total

	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 245,927	$ 152,508	$ 69,828	$ 1,342	$ 469,605
Intersegment sales	1,892	5,845	1,864	(9,601)	--
Segment operating income (before special items)	26,979	23,491	8,509	(7,663)	51,316

Three months ended September 30, 2000	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 194,270	$ 146,881	$ 69,332	$ 1,622	$ 412,105
Intersegment sales	5,539	2,635	2,215	(10,389)	--
Segment operating income (before special items)	17,287	17,314	7,493	(7,837)	34,257

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

	Three Months Ended September 30, 2001	2000
Total segment operating income (before special items)	$ 58,979	$ 42,094
Corporate expenses and other	7,663	7,837
Integration expense	13,757	10,470
Restructuring expense	--	17,102
Net interest expense	28,326	23,423
Other expense	119	299
Net earnings (loss) before income taxes	$ 9,114	$ (17,037)

Nine months ended September 30, 2001	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 706,530	$ 464,248	$ 203,577	$ 3,864	$ 1,378,219
Intersegment sales	4,621	16,483	6,015	(27,119)	--
Segment operating income (before special items)	74,952	64,197	25,383	(23,640)	140,892
Identifiable assets	$ 1,349,641	$ 456,675	$ 218,938	$ 73,288	$ 2,098,542

Nine months ended September 30, 2000	Flowserve Pump	Flow Solutions	Flow Control	All Other	Consolidated Total
Sales to external customers	$ 347,123	$ 445,614	$ 199,086	$ 4,744	$ 996,567
Intersegment sales	8,431	12,334	7,663	(28,428)	--
Segment operating income (before special items)	27,395	52,664	23,688	(21,671)	82,076
Identifiable assets	$ 1,342,266	$ 419,302	$ 203,168	$ 81,536	$ 2,046,272

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

	Nine Months Ended September 30, 2001	2000
Total segment operating income (before special items)	$ 164,532	$ 103,747
Corporate expenses and other	23,640	21,671
Integration expense	49,840	10,470
Restructuring expense	--	17,102
Net interest expense	91,497	36,312
Other income	(281)	(2,174)
Net (loss) earnings before income taxes	$ (164)	$ 20,366

Item 2. Management's Discussion and Analysis

In general, results for the third quarter of 2001 and the nine months ended September 30, 2001 were higher than the corresponding period in the previous year due to the Company's acquisition of Ingersoll-Dresser Pump Company (IDP) on August 8, 2000. This acquisition is discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis. Pro forma results referenced throughout this discussion give effect as if the Company's August 2000 acquisition of IDP had been completed on January 1, 2000 and includes purchase accounting adjustments and estimated financing costs. Special items in 2001 include integration expense. Special items in 2000 include integration expense, restructuring expense and extraordinary items.

Results Of Operations - Three Months Ended September 30, 2001

Sales increased 14.0% to $469.6 million for the three months ended September 30, 2001, compared with $412.1 million for the same period in 2000. Sales were about flat with the third quarter of 2000 pro forma sales of $470.5 million. Sales were positively impacted by higher bookings during the quarter and a strong backlog. However, sales were negatively impacted by the disruption following the September 11th terrorist attacks, which caused a reduction in quick turnaround business, inability to ship due to delays in customer travel for witness inspections, and supplier and other shipping delays. Additionally, sales were impacted by an unfavorable currency translation of approximately 1.6%, weaker conditions in the chemical and general industry sectors, the divestiture of product lines in 2000 to comply with the Department of Justice consent decree to acquire IDP and the closure or sale of several service operations. The change in sales is discussed further in the following section on Business Segments. Net sales to international customers, including export sales from the U.S., increased sequentially from the previous quarter to 48%, but were similar to the third quarter of 2000.

Bookings, or incoming orders for which there are purchase commitments, were $485.6 million, 21.7% higher than the third quarter of 2000 when bookings were $399.2 million. Excluding negative currency translation, bookings increased approximately 7.3% compared with last year's third quarter pro forma of $461.1 million. This reflects the second consecutive quarter-over-quarter improvement in bookings. The improvement reflects strength in the petroleum, power and water markets during the quarter. Bookings activity in the chemical and general industrial segments of the business was soft throughout the quarter. Bookings might have improved further absent the adverse impact of the September 11th events. The quick turnaround business, including MRO, manual valves, parts, seals and ISO and ANSI pump bookings, slowed after the terrorist attacks as many of the Company's customers instituted tighter security measures at their plant sites. At September 30, 2001, backlog was $756.4 million, an increase of 2.4% compared with the second quarter and an increase of 14.7% compared to year end 2000.

Business Segments

Flowserve manages its operations through three business segments: Flowserve Pump Division (FPD) for engineered and industrial pumps; Flow Solutions Division

(FSD) for precision mechanical seals and flow management services; and Flow Control Division (FCD) for automated and manual quarter-turn valves, control valves, nuclear valves and valve actuators.

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

	Flowserve Pump Division	
	Three Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 247.8	$ 199.8
Operating income (before special items)	27.0	17.3

The sales increase in 2001 was due to the acquisition of IDP. On a pro forma basis, revenues were $243.6 million in the third quarter of 2000. FPD sales improved over pro forma levels despite impacts of negative currency of 1.7% and the September 11th terrorist attacks, largely due to higher bookings and a larger backlog at the beginning of the quarter. After the September 11th terrorist attacks, there was a reduction in quick turnaround business, an inability to ship due to delays in customer travel for witness inspections, and supplier and other shipping delays.

Operating income, before special items, increased 56.1% to $27.0 million from the prior period of $17.3 million, and 169.8% from pro forma results of $10.0 million. Operating income as a percentage of sales increased to 10.9% in 2001 from 8.7% in the prior year period and 4.1% in 2000 on a pro forma basis. The increase primarily resulted from the synergy savings realized from the IDP integration activities.

	Flow Solutions Division	
	Three Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 158.4	$ 149.5
Operating income (before special items)	23.5	17.3

Sales were higher than the prior year period primarily due to the inclusion of a portion of IDP's service repair business in 2001. Pro forma sales were $164.1 million in the third quarter of 2000. The decrease from pro forma sales was due to unfavorable currency translation of 1.4%, the slowdown in quick turnaround business after the September 11th terrorist attacks and the closure or sale of several service operations.

Operating income before special items of $23.5 million increased 35.5% compared with prior year and 16.2% compared with pro forma results. Operating income before special items, as a percentage of sales, increased to 14.8% from 11.6% in 2000 on an as reported basis and 12.3% on a pro forma basis. This improvement reflects the benefits of the integration of service operations and the consolidation of the North American seal business.

	Flow Control Division	
	Three Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 71.7	$ 71.5
Operating income (before special items)	8.5	7.5

Sales increased slightly over the prior year despite an unfavorable currency translation which reduced sales by about 1.4%, and the slowdown in quick turnaround manual valve sales after the September 11th events.

Operating income of $8.5 million improved from the prior year. Operating income as a percentage of sales was 11.9% in the third quarter of 2001, compared with 10.5% in 2000. The improvement in profitability reflects the impact of continued efficiency improvements, which resulted in cost reductions.

Consolidated Results

Gross profit of $152.3 million increased 8.8% compared with the prior year period on a pro forma basis despite relatively flat sales. Gross profit increased 17.1% compared with the same prior year period as reported. The gross profit margin was 32.4% for the three months ended September 30, 2001, compared with 31.6% for the same period in 2000. The Company's margin increased 260 basis points when compared to the third quarter 2000 pro forma margin of 29.8%. This improvement primarily resulted from manufacturing integration synergies.

Selling, general and administrative expense of $101.0 million declined 8.3% from the prior year period pro forma. Selling, general and administrative expense, as a percentage of net

sales, was 21.5% for the quarter ended September 30, 2001, compared with 23.3% in the prior year period and 23.4% in 2000 on a pro forma basis. The decrease from the prior year percentages was generally due to IDP integration savings including benefits of sales force reductions and the closure of the IDP headquarters.

Operating income increased more than 450 percent to $37.6 million in the third quarter of 2001 compared with $6.7 million in the year ago period. Operating income, before special items of $51.3 million, increased 49.8% over reported and 71.9% over pro forma quarterly comparisons. The improvement principally reflects synergy benefits related to the acquisition and integration of IDP.

Net interest expense during the third quarter of 2001 was $28.3 million, compared with $23.4 million in the same period in 2000 due to a full quarter of debt related to the acquisition of IDP in this year's third quarter compared with only about two months in last year's third quarter, partially offset by lower interest rates on the Company's debt.

The Company's effective tax rate for the third quarter of 2001 was 36.0% compared with 35.8% in the third quarter of 2000.

Extraordinary items in 2000 of $2.1 million, net of tax of $1.2 million, represent the after tax impact of writing off deferred financing fees and prepayment penalties associated with refinancing the Company's debt in conjunction with the IDP acquisition.

Earnings before special items more than doubled in the third quarter of 2001 to $14.6 million, or $0.38 per share. This compares with earnings before special items of $6.7 million, or $0.18 per share, in the third quarter of 2000 and a pro forma loss, before special items, of $3.6 million, or $0.10 per share, in the same period. Special items of $13.8 million in the third quarter of 2001 related to period costs associated with the integration of IDP. Special items in 2000 related to integration expenses, restructuring expenses and extraordinary items. Net earnings for the third quarter of 2001 were $5.8 million, or $0.15 per share, compared to a loss of $13.0 million, or $0.34 per share, for the same period in 2000 and a pro forma loss of $23.3 million, or $0.62 per share, in the same period.

Results Of Operations - Nine Months Ended September 30, 2001

Sales increased 38.3% to $1,378.2 million for the nine months ended September 30, 2001, compared with $996.6 million for the same period in 2000. Pro forma sales in 2000, which include the results of IDP, were $1,418.4 million. Sales for 2001 compared to the prior year on a pro forma basis were adversely affected by an unfavorable currency translation of approximately 2.4%, inefficiencies resulting from the integration of IDP, the divestiture of product lines in late 2000 to comply with the Department of Justice consent decree to acquire IDP and the closure or sale of several service operations. Additionally, sales in the third quarter of 2001 were adversely impacted by the disruption following the September 11th terrorist attack, which caused a reduction in quick turnaround business, an inability to ship due to delays in customer travel for witness inspections, and supplier and other shipping delays. The change in sales is discussed further in the following section on Business Segments. Net sales to international customers, including export sales from the U.S., were similar to the prior year at 46%.

Bookings, or incoming orders for which there are purchase commitments, were $1,522.7 million, or 49.4%, higher than the prior year when bookings were $1,019.3 million. Pro forma bookings in the prior year were $1,534.5 million. Excluding negative currency impacts, bookings increased 1.7% compared with pro forma results. Year-to-date bookings were relatively strong in the petroleum, power and water markets and reflect increasing project activity. Bookings activity was mixed-to-slightly weaker in the chemical and general industrial markets. Bookings might have improved further had it not been for the adverse impact of the

September 11th events. The quick turnaround business, including MRO, manual valves, parts, seals and ISO and ANSI pump bookings, slowed after the terrorist attacks as many of the Company's customers instituted tighter security measures at their plant sites. Backlog was $756.4 million at September 30, 2001, an increase of 14.7% compared with year end 2000.

Business Segments

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

	Flowserve Pump Division	
	Nine Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 711.2	$ 355.6
Operating income (before special items)	75.0	27.4

The sales increase in 2001 was due to the acquisition of IDP. On a pro forma basis, revenues were $731.9 million in 2000. The sales decrease on a pro forma basis resulted from unfavorable currency translation, which reduced sales by about 2.8% year-over-year, the September 11th events, which delayed witness inspections and supplier deliveries, temporary inefficiencies associated with the integration of IDP in the first half of the year, and divestiture of product lines in late 2000 to comply with the Department of Justice consent decree.

Operating income, before special items, increased 173.6% from prior period results of $27.4 million and 263.7% from pro forma results of $20.6 million. Operating income, before special items, as a percentage of sales, increased to approximately 10.5% in 2001 from 7.7% in the prior year period and 2.8% in 2000 on a pro forma basis. The increase primarily resulted from the synergy savings realized from the IDP integration activities.

	Flow Solutions Division	
	Nine Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 480.7	$ 457.9
Operating income (before special items)	64.2	52.7

Sales were higher than the prior year period primarily due to the inclusion of a portion of IDP's service repair business in 2001. Pro forma sales were $503.4 million in 2000. The decrease from pro forma sales is due to unfavorable currency translation of 1.8%, the reduction in quick turnaround seal shipments after the September 11th events, the closure or sale of several service operations and temporary integration dissynergies in the first half of 2001.

Operating income, before special items of $64.2 million, was 21.8% above prior year results and 6.5% above pro forma results. Operating income before special items, as a percentage of sales, increased to 13.4% from 11.5% in 2000 on an as reported basis and 12.0% on a pro forma basis. The improvement in the operating margin reflects the benefits of the integration of the service operations and the consolidation of the North American seal business. Partially offsetting the improvements were integration inefficiencies at the service operations and period costs related to the previously announced restructuring of the seal business in the first half of the year.

	Flow Control Division	
	Nine Months Ended September 30,	
(In millions of dollars)	2001	2000
Sales	$ 209.6	$ 206.7
Operating income (before special items)	25.4	23.7

Sales increased slightly over the prior year despite an unfavorable currency translation, which reduced sales by about 2.3% and the slowdown in quick turnaround manual valve sales after the September 11th events.

Operating income of $25.4 million increased 7.1% compared with the prior year. Operating income as a percentage of sales was 12.1% in the first nine months of 2001, compared with 11.5% in 2000. The improved operating margin in 2001 was primarily due to efficiency improvements, which resulted in cost reductions

Consolidated Results

The gross profit of $445.6 million increased 4.7% compared with the prior year period on a pro forma basis despite a 2.8% reduction in sales. The gross profit increased 34.0% from the prior year as reported reflecting the IDP acquisition. The gross profit margin was 32.3% for the nine months ended September 30, 2001, compared with 33.4% for the same period in 2000. The decrease was primarily due to the acquisition of IDP as IDP's margins historically are lower than those for the balance of the Company. The Company's margin increased 230 basis points when compared to the 2000 pro forma margin of 30.0%. This improvement primarily resulted from manufacturing integration synergies.

Selling, general and administrative expense of $304.7 million declined 11.0% from the prior year pro forma. Selling, general and administrative expense as a percentage of net sales was 22.1% for the nine months ended September 30, 2001, compared with 25.1% in the prior year period and 24.2% in 2000 on a pro forma basis. The decrease from the prior year percentages is due to IDP integration savings, including sales force reductions and the IDP headquarters closure, productivity improvements and other cost reduction initiatives.

Operating income before special items of $140.9 million increased 71.7% over reported and 70.0% over pro forma yearly comparisons. The improvement generally reflects synergy benefits related to the acquisition and integration of IDP.

Net interest expense during the first nine months of 2001 was $91.5 million, compared with $36.3 million in the same period in 2000 due to the increased borrowing levels required to acquire IDP and the amortization of deferred financing fees related to the new debt. Net interest expense has declined in each of the past three quarters due to lower borrowing rates. More than one-half of the debt is floating rate and the effective borrowing rates have declined.

Other income was $0.3 million in the first nine months of 2001 compared with $2.2 million of income in the same period in 2000. The 2000 amounts resulted primarily from income recorded as a result of payment received on a note receivable which had been fully reserved and mark-to-market adjustments required at the time under the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Agreements Where Amounts Earned are Held in a Rabbi Trust and Invested". Due to an amendment the Company made in the deferred compensation plans during the fourth quarter of 2000, this adjustment is no longer applicable.

The Company's effective tax rate for the first nine months of 2001 was 36% compared with 32.9% in the prior year period. The increased tax rate reflects the acquisition of IDP which has a higher mix of business in higher taxed foreign countries.

Extraordinary items in 2000 of $2.1 million, net of tax of $1.2 million, represent the after tax impact of writing off deferred financing fees and prepayment penalties associated with refinancing the Company's debt in conjunction with the IDP acquisition.

Earnings before special items for the first nine months of 2001 were $31.8 million, or $0.83 per share, compared with a loss of $8.4 million, or $0.22 per share, in the same period of 2000 on a pro forma basis. Special items of $49.8 million in 2001 related to period costs associated with the integration of IDP. Special items in 2000 related to integration expenses, restructuring expenses, and extraordinary items. Net earnings for the first nine months of 2001 were a loss of $0.1 million, or $0.00 per share, compared to income of $11.5 million, or $0.30 per share, for the same period in 2000.

Restructuring

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to reduce costs and eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, are expected to result in the net reduction of approximately 1,100 positions and are expected to result in at least $90 million in annual synergy savings upon estimated completion before the end of 2001. The Company expects the cost of achieving these synergies will be approximately $150 million. The program includes the closure of IDP's former headquarters, the closure or significant downsizing of a number of pump manufacturing facilities, service and repair centers, and reduction of sales and sales support personnel.

The Company currently estimates that the costs associated with the restructuring portion of the program will be approximately $68 million. The Company had originally estimated these costs to be approximately $61 million. The increase from the original estimate is primarily due to updated actuarial information for post-retirement and pension expense relating to a plant closure. This increase was offset by a non-cash reclassification from the restructuring accrual to post-retirement benefits and pension liabilities which resulted in a net reduction to the accrual of $8.8 million during the fourth quarter of 2000. In the third quarter of 2001, the Company recorded a non-cash reclassification from the restructuring accrual to pension liabilities which resulted in a net reduction to the accrual of $2.1 million.

The Company's current estimate of $68 million in restructuring cost is comprised of approximately $44 million which relates to the IDP operations acquired, of which $28 million has been capitalized in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $24 million relates to the Flowserve operations and was recorded as restructuring expense in the third quarter of 2000. As part of an agreement with the Department of Justice to acquire IDP, the Company was required to sell its Tulsa facility. Since this facility had been previously targeted for closure in the fourth quarter of 1999, this resulted in a non-cash reduction of the existing 1999 restructuring reserve of $5.3 million in the third quarter of 2000.

The balance of the $150 million in costs will be recorded as integration expense as incurred. During the first nine months of 2001, the Company incurred $49.8 million in integration costs in conjunction with this program. The Company expects the integration activities will be substantially complete by the end of 2001.

As of September 30, 2001, the program had resulted in a net reduction of approximately 1,100 employees.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(18,645)	(2,434)	(21,079)
Net non-cash reduction	(8,849)	--	(8,849)
Balance at December 31, 2000	$ 18,486	$ 12,398	$ 30,884
Cash expenditures	(5,729)	(4,029)	(9,758)
Balance at March 31, 2001	$ 12,757	$ 8,369	$ 21,126
Cash expenditures	(3,277)	(2,505)	(5,782)
Balance at June 30, 2001	$ 9,480	$ 5,864	$ 15,344
Cash expenditures	(3,477)	(315)	(3,792)
Non-cash reduction	(2,100)	--	(2,100)
Balance at September 30, 2001	$ 3,903	$ 5,549	$ 9,452

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15.9 million recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a reduction in workforce at those and other locations.

During the third quarter of 2000, the restructuring reserve was reduced by $5.3 million. This was the result of plans to sell the aforementioned Tulsa facility that had been previously targeted for closure.

The 1999 restructuring program resulted in a net reduction of approximately 261 employees at a cost of $12.9 million. In addition, exit costs associated with the facilities closings were $3.0 million.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$ 12,900	$ 2,960	$ 15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	$ 12,798	$ 2,960	$ 15,758
Cash expenditures	(6,766)	(1,932)	(8,698)
Non-cash reduction	(4,364)	(1,028)	(5,392)
Balance at December 31, 2000	$ 1,668	$ --	$ 1,668
Cash expenditures	(495)	--	(495)
Balance at March 31, 2001	$ 1,173	$ --	$ 1,173
Cash expenditures	(682)	--	(682)
Balance at June 30, 2001	$ 491	$ --	$ 491
Cash expenditures	(491)	--	(491)
Balance at September 30, 2001	$ --	$ --	$ --

Liquidity and Capital Resources

Cash flows from operating activities for the first nine months of 2001 were significantly below the same period in 2000, generally due to cash outflows associated with the IDP integration program, including restructuring and integration payments, higher interest payments attributable to the August 2000 acquisition of IDP and other increases in working capital. The primary reason for other increases in working capital was an increase in inventories in support of backlog for future shipments and increased finished goods safety stock to meet customer deliveries during the plant closure process.

For the nine months ended September 30, 2001, the Company increased its bank borrowings by $69.1 million, primarily to fund integration expenses and increases in working capital. The Company believes that a portion of this increase in working capital is seasonal in nature. The Company expects that completion of its restructuring and integration program in the fourth quarter of 2001 as well as other projects should reduce such increases over time.

Capital expenditures were $28.3 million during the first nine months of 2001, compared with $16.4 million in the first nine months of 2000. The spending was primarily related to integration activities including structures, realignment and equipment required at receiving facilities and product development. Cash proceeds on the disposal of assets associated with the IDP integration activities were $8.5 million for the first nine months of 2001.

On July 5, 2001, the Company filed a Form S-3 Registration Statement with the SEC utilizing a shelf registration process for the offering and sale of up to $500 million of common stock, preferred stock, debt securities or guarantees of debt securities. On November 2, 2001, the Company announced its intention to issue approximately $150 million of common stock. Proceeds from the equity issuance will be used to repay the 12.25% Senior Subordinated Notes, subject to receipt of a consent from lenders of the Company's senior bank credit facilities.

Financing

During the third quarter of 2000, in connection with the acquisition of IDP, the Company entered into senior secured credit facility (the "Credit Facility"), which included a $275 million term loan due June 2006, a $475 million term loan due June 2008, and a $300 million revolving Credit Facility with a final maturity of June 2006. The Term Loans bear interest based on LIBOR plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. At September 30, 2001, the interest rate(s) on the term loans were 6.3125%, 6.25%, 5.4375% and 5.375% relating to the Tranche A loan and 7.0625%, 7.0% and 6.1875% relating to the Tranche B loan. The scheduled quarterly principal payments

for these term loans began in June 2001. The Credit Facilities are collateralized by the domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. As of September 30, 2001, $86.0 million of the revolving credit was drawn and $732.8 million of the term loans were outstanding. The revolving Credit Facility allows the Company to issue up to $200 million in letters of credit. As of September 30, 2001, $25.7 million of letters of credit had been issued under the facility.

The scheduled principal payments of the term loans outstanding at September 30, 2001 are summarized as follows: $5.9 million in the fourth quarter of 2001, $44.5 million in 2002, $59.4 million in 2003, $63.3 million in 2004, $67.3 million in 2005, $105.9 million in 2006, $257.5 million in 2007 and $129.1 million in 2008. Beginning in 2002, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Facility as well as the Company's Indenture, to reduce the outstanding principal of the term loans and/or the Notes.

The Company also issued 10 year, senior subordinated notes on August 8, 2000 in a U.S. dollar tranche and a Euro tranche, that are non-callable for 5 years. Proceeds of $285.9 million from the dollar tranche, and EUR 98.6 million from the Euro tranche, equivalent to $89.2 million, were also used in completing the IDP acquisition. The Notes, issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal payment prior to maturity in August 2010. Beginning in August 2005, the Company has the right to redeem the Notes at a fixed redemption price. The Notes can also be redeemed by the Company under certain circumstances and have a mandatory redemption feature in the event of a change in control, as defined in the Indenture. Interest on the notes is payable semi-annually.

The provisions of the credit agreement require the Company to meet or exceed specified defined financial covenants. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the credit agreement require limitations or restrictions on indebtedness, liens, sale and leaseback transactions, asset sales, limitation of restricted payments, capital expenditures and other customary restrictions. As of September 30, 2001, the Company is in compliance with these covenants.

The Company currently believes that internally generated funds and funds available under its bank agreement will be adequate to fund capital expenditures, working capital needs, service debt and make loan repayments. The Company believes it also has access to additional sources of funds in the event that such funds are required.

Acquisition

In August 2000, the Company completed the acquisition of IDP, a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. As part of the purchase, the Company acquired $25 million in cash. The seller also agreed to provide for severance for certain employees and costs related to the accelerated closure of several U.S. facilities which the Company estimated at $52 million. The transaction, which was accounted for as a purchase, was financed with a combination of secured bank financing and Senior Subordinated Notes. Upon closing of the transaction, the Company's existing bank debt was also refinanced.

Recent Accounting Developments

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Additionally, SFAS

No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and is effective for the Company on January 1, 2002. The most significant changes made by SFAS No. 142 require that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least on an annual basis. Additionally, the amortization period of intangible assets with finite lives will no longer be limited to forty years.

The Company is currently assessing the impact of SFAS 142 and has not yet determined the full effects these statements will have on its consolidated financial position or results of operations. However, the Company has estimated that the pretax reduction in annual amortization expense will total approximately $19 million.

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

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for the Company on January 1, 2002. The Company is currently assessing the impact of SFAS No. 144 and has not yet determined the effects, if any, it will have on its consolidated financial position or results of operations.

Forward-Looking Information is Subject to Risk and Uncertainty

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

Item 3. Quantitative and Qualitative Disclosure of Market Risks

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

The Company's earnings are impacted by changes in short-term interest rates as a result of borrowings under its Credit Facility which bear interest based on floating rates. At September 30, 2001, after the effect of interest rate swaps held by the Company, the Company had approximately $668.9 million of variable-rate debt obligations outstanding with a weighted average interest rate of 6.330%. A hypothetical increase of 100-basis points in the interest rate for these borrowings, assuming debt levels at September 30, 2001, would change interest expense by approximately $5.0 million for the nine months ended September 30, 2001.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. Based on the sensitivity analysis at September 30, 2001, a 10% adverse change in the foreign currency exchange rates would impact the Company's year-to-date results of operation by $0.9 million. The primary currencies to which the Company has exposure are the Euro currencies, the U.K. pound, the Brazilian real, the Canadian dollar, the Mexican peso, the Japanese yen, the Singapore dollar, and the Australian dollar.

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

The Company reclassified the transition adjustment relating to foreign currency forward contracts to earnings during the first quarter of 2001 as those contracts settled. At September 30, 2001, the fair value of the hedging instruments is a liability of $6.0 million.

Hedging related transactions recorded to other comprehensive income during 2001 were:

	Other Comprehensive (Income) Loss
Record fair market value of hedges, as of January 1, 2001, net of deferred taxes of $472	$ (840)
Reclassify to earnings amount necessary to offset swap agreement gains for the nine months ended September 30, 2001, net of deferred taxes of $269	(499)
Reclassify to earnings amount necessary to offset foreign currency gains for nine	

months ended September 30, 2001, net of deferred taxes of $11	(36)
Change in fair market value of swap agreements as of September 30, 2001, net of deferred taxes of $2,285	3,932
Change in fair market value of foreign currency forward contracts as of September 30, 2001, net of deferred taxes of $690	1,141
Balance as of September 30, 2001	$ 3,698

The Company expects that within the next twelve months it will reclassify as expense $1.0 million, net of deferred tax, of this amount recorded in accumulated other comprehensive income for contracts that will settle during the period.

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. As of September 30, 2001, the Company has approximately $58.2 million of notional amount in outstanding contracts with third parties. As of September 30, 2001, the maximum length of any forward contract currently in place is about 20 months.

The Company does not believe it has any material credit risk due to nonperformance by counterparties to financial instruments in so far as its policies in that regard limit counterparties to those with the highest credit ratings. The Company expects all counterparties will meet their obligations given their high credit ratings.

The Company, as part of its risk management program, is party to interest rate swap agreements for the purpose of hedging its exposure to floating interest rates on certain portions of its debt. As of September 30, 2001, the Company had $150 million of notional amount in outstanding interest rate swaps with third parties. As of September 30, 2001, the maximum length of any interest rate contract currently in place is about 5 years.

PART II OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(c) During the third quarter of 2001, the Company issued 12,500 shares of restricted common stock pursuant to an exemption from registration under Section 4 (2) of the Securities Act of 1933. Shares were issued for the benefit key employees, subject to restrictions on transfer and vesting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
None

(b) Reports on Form 8-K
None

SIGNATURE

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

FLOWSERVE CORPORATION

(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: November 2, 2001
