**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, 2022**

**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**

**FLOWSERVE 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 700, 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 |

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 22, 2022 there were 130,693,455 shares of the issuer’s common stock outstanding.



**FLOWSERVE CORPORATION**

**FORM 10-Q**

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

**Item 1.** **Financial Statements**

Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income (Loss) – Three Months Ended June 30, 2022 and 2021 (unaudited)

Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income (Loss) – Six Months Ended June 30, 2022 and 2021 (unaudited)

Condensed Consolidated Balance Sheets – Condensed Consolidated Balance Sheets – June 30, 2022 and December 31, 2021 (unaudited)

Condensed Consolidated Statements of Shareholders' Equity – Three Months Ended June 30, 2022 and 2021 (unaudited)

Condensed Consolidated Statements of Stockholders' Equity – Six Months Ended June, 2022 and 2021 (unaudited)

Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2022 and 2021 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Item 3. Quantitative and Qualitative Disclosures About Market Risk Item 4. Controls and Procedures**

**PART II – OTHER INFORMATION**

**Item 1.** **Legal Proceedings**

**Item 1A.** **Risk Factors**

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

**Item 3. Defaults Upon Senior Securities**

**Item 4. Mine Safety Disclosures**

**Item 5. Other Information**

**Item 6.** **Exhibits**

**SIGNATURES**

i



**Page**

**No.**



1

2

3

4

5

6

7

25

39

39

40

40

40

42

42

42

42

43

Table of Contents

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **PART I — FINANCIAL INFORMATION** |  |  |  |  |  |  |
| **Item 1. Financial Statements** | |  |  |  |  |  |  |
|  | **FLOWSERVE CORPORATION** |  |  |  |  |  |  |
|  | **CONDENSED CONSOLIDATED STATEMENTS OF INCOME** | |  |  |  |  |  |
|  | **(Unaudited)** |  |  |  |  |  |  |
|  | (Amounts in thousands, except per share data) |  | **Three Months Ended June 30,** | | | |  |
|  |  |  | **2022** |  |  | **2021** |  |
|  | Sales | $ | 882,222 |  | $ | 898,178 |  |
|  | Cost of sales |  | (632,393) |  |  | (619,940) |  |
|  | Gross profit |  | 249,829 |  |  | 278,238 |  |
|  | Selling, general and administrative expense |  | (194,606) |  |  | (210,789) |  |
|  | Gain on sale of business |  | — | |  | 1,806 |  |
|  | Net earnings from affiliates |  | 5,109 |  |  | 2,907 |  |
|  | Operating income |  | 60,332 |  |  | 72,162 |  |
|  | Interest expense |  | (11,062) |  |  | (14,322) |  |
|  | Interest income |  | 854 |  |  | 465 |  |
|  | Other income (expense), net |  | 7,589 |  |  | (7,850) |  |
|  | Earnings before income taxes |  | 57,713 |  |  | 50,455 |  |
|  | Provision for income taxes |  | (11,618) |  |  | (2,711) |  |
|  | Net earnings, including noncontrolling interests |  | 46,095 |  |  | 47,744 |  |
|  | Less: Net earnings attributable to noncontrolling interests |  | (1,318) |  |  | (2,390) |  |
|  | Net earnings attributable to Flowserve Corporation | $ | 44,777 |  | $ | 45,354 |  |
|  | Net earnings per share attributable to Flowserve Corporation common shareholders: |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | Basic | $ | 0.34 |  | $ | 0.35 |  |
|  | Diluted |  | 0.34 |  |  | 0.35 |  |
|  |  |  |  |  |  |  |  |
|  | Weighted average shares - basic |  | 130,666 |  |  | 130,305 |  |
|  | Weighted average shares - diluted |  | 131,245 |  |  | 130,804 |  |
|  | **CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)** | | | |  |  |  |
|  | **(Unaudited)** |  |  |  |  |  |  |
|  | (Amounts in thousands) |  | **Three Months Ended June 30,** | | | |  |
|  |  |  | **2022** |  |  | **2021** |  |
|  | Net earnings, including noncontrolling interests | $ | 46,095 |  | $ | 47,744 |  |
|  | Other comprehensive income (loss): |  |  |  |  |  |  |
|  | Foreign currency translation adjustments, net of taxes of $(7,299) and $(6,401), respectively |  | (64,160) |  |  | 13,998 |  |
|  | Pension and other postretirement effects, net of taxes of $(457) and $(472), respectively |  | 6,570 |  |  | 2,059 |  |
|  | Cash flow hedging activity, net of taxes of $(9) and $(5), respectively |  | 29 |  |  | 15 |  |
|  | Other comprehensive income (loss) |  | (57,561) |  |  | 16,072 |  |
|  | Comprehensive income (loss), including noncontrolling interests |  | (11,466) |  |  | 63,816 |  |
|  | Comprehensive (income) loss attributable to noncontrolling interests |  | (1,321) |  |  | (2,403) |  |
|  | Comprehensive income (loss) attributable to Flowserve Corporation | $ | (12,787) |  | $ | 61,413 |  |
|  |  |  |  |  |  |  |  |

See accompanying notes to condensed consolidated financial statements.

1



Table of Contents

**FLOWSERVE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Amounts in thousands, except per share data) |  | **Six Months Ended June 30,** | | | |
|  |  | **2022** |  |  | **2021** |
| Sales | $ | 1,703,280 |  | $ | 1,755,486 |
| Cost of sales |  | (1,243,803) |  |  | (1,226,348) |
| Gross profit |  | 459,477 |  |  | 529,138 |
| Selling, general and administrative expense |  | (400,816) |  |  | (409,104) |
| Gain on sale of business |  | — | |  | 1,806 |
| Net earnings from affiliates |  | 9,039 |  |  | 6,425 |
| Operating income |  | 67,700 |  |  | 128,265 |
| Interest expense |  | (21,755) |  |  | (31,101) |
| Loss on extinguishment of debt |  | — | |  | (7,610) |
| Interest income |  | 1,797 |  |  | 1,067 |
| Other income (expense), net |  | (524) |  |  | (19,213) |
| Earnings before income taxes |  | 47,218 |  |  | 71,408 |
| Provision for income taxes |  | (14,800) |  |  | (6,503) |
| Net earnings, including noncontrolling interests |  | 32,418 |  |  | 64,905 |
| Less: Net earnings attributable to noncontrolling interests |  | (3,458) |  |  | (5,471) |
| Net earnings attributable to Flowserve Corporation | $ | 28,960 |  | $ | 59,434 |
|  |  |  |  |  |  |
| Net earnings per share attributable to Flowserve Corporation common shareholders: |  |  |  |  |  |
| Basic | $ | 0.22 |  | $ | 0.46 |
| Diluted |  | 0.22 |  |  | 0.45 |
|  |  |  |  |  |  |
| Weighted average shares - basic |  | 130,554 |  |  | 130,366 |
| Weighted average shares - diluted |  | 131,148 |  |  | 130,905 |
| **CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)** | | | |  |  |
| **(Unaudited)** |  |  |  |  |  |
| (Amounts in thousands) |  | **Six Months Ended June 30,** | | | |
|  |  | **2022** |  |  | **2021** |
| Net earnings, including noncontrolling interests | $ | 32,418 |  | $ | 64,905 |
| Other comprehensive income (loss): |  |  |  |  |  |
| Foreign currency translation adjustments, net of taxes of $(20,605) and $(5,747), respectively |  | (80,904) |  |  | 3,109 |
| Pension and other postretirement effects, net of taxes of $(711) and $(942), respectively |  | 10,157 |  |  | 6,318 |
| Cash flow hedging activity, net of taxes of $(18) and $(67), respectively |  | 58 |  |  | 217 |
| Other comprehensive income (loss) |  | (70,689) |  |  | 9,644 |
| Comprehensive income (loss), including noncontrolling interests |  | (38,271) |  |  | 74,549 |
| Comprehensive (income) loss attributable to noncontrolling interests |  | (4,798) |  |  | (5,633) |
| Comprehensive income (loss) attributable to Flowserve Corporation | $ | (43,069) |  | $ | 68,916 |
|  |  |  |  |  |  |

See accompanying notes to condensed consolidated financial statements.

2



Table of Contents

**FLOWSERVE CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Amounts in thousands, except par value) |  | **June 30,** | |  | **December 31,** |  |
|  |  | **2022** |  |  | **2021** |  |
| **ASSETS** |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 458,345 |  | $ | 658,452 |  |
| Accounts receivable, net of allowance for expected credit losses of $78,776 and $74,336, respectively |  | 735,895 |  |  | 739,210 |  |
| Contract assets, net of allowance for expected credit losses of $3,704 and $2,393, respectively |  | 197,128 |  |  | 195,598 |  |
| Inventories, net |  | 748,920 |  |  | 678,287 |  |
| Prepaid expenses and other |  | 140,639 |  |  | 117,130 |  |
| Total current assets |  | 2,280,927 |  |  | 2,388,677 |  |
| Property, plant and equipment, net of accumulated depreciation of $1,150,876 and $1,191,823, respectively |  | 487,299 |  |  | 515,927 |  |
| Operating lease right-of-use assets, net |  | 178,974 |  |  | 193,863 |  |
| Goodwill |  | 1,162,514 |  |  | 1,196,479 |  |
| Deferred taxes |  | 34,582 |  |  | 44,049 |  |
| Other intangible assets, net |  | 139,786 |  |  | 152,463 |  |
| Other assets, net of allowance for expected credit losses of $67,968 and $67,696, respectively |  | 298,650 |  |  | 258,310 |  |
| Total assets | $ | 4,582,732 |  | $ | 4,749,768 |  |
| **LIABILITIES AND EQUITY** |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |
| Accounts payable | $ | 433,508 |  | $ | 410,062 |  |
| Accrued liabilities |  | 374,575 |  |  | 445,092 |  |
| Contract liabilities |  | 205,175 |  |  | 202,965 |  |
| Debt due within one year |  | 46,306 |  |  | 41,058 |  |
| Operating lease liabilities |  | 32,153 |  |  | 32,628 |  |
| Total current liabilities |  | 1,091,717 |  |  | 1,131,805 |  |
| Long-term debt due after one year |  | 1,241,636 |  |  | 1,261,770 |  |
| Operating lease liabilities |  | 153,580 |  |  | 166,786 |  |
| Retirement obligations and other liabilities |  | 341,906 |  |  | 352,062 |  |
| Commitments and contingencies (See Note 10) |  |  |  |  |  |  |
| 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 |  | 500,013 |  |  | 506,386 |  |
| Retained earnings |  | 3,666,935 |  |  | 3,691,023 |  |
| Treasury shares, at cost – 46,377 and 46,794 shares, respectively |  | (2,037,839) |  |  | (2,057,706) |  |
| Deferred compensation obligation |  | 6,921 |  |  | 7,214 |  |
| Accumulated other comprehensive loss |  | (635,618) |  |  | (563,589) |  |
| Total Flowserve Corporation shareholders’ equity |  | 1,721,403 |  |  | 1,804,319 |  |
| Noncontrolling interests |  | 32,490 |  |  | 33,026 |  |
| Total equity |  | 1,753,893 |  |  | 1,837,345 |  |
| Total liabilities and equity | $ | 4,582,732 |  | $ | 4,749,768 |  |
|  |  |  |  |  |  |  |

See accompanying notes to condensed consolidated financial statements.

3



Table of Contents

**FLOWSERVE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Total Flowserve Corporation Shareholders’ Equity** | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  | **Common Stock** | | | | |  | **Capital** | |  |  |  | **Treasury Stock** | | | | |  | **Deferred** | |  | **Other** | |  | **Non-** | |  |  |
|  |  |  |  |  |  |  | **in Excess of** | |  | **Retained** | |  |  |  |  |  |  | **Compensation** | |  | **Comprehensive** | |  | **controlling** | |  |  |
|  | **Shares** | |  | **Amount** | |  | **Par Value** | |  | **Earnings** | | **Shares** | |  | **Amount** | |  | **Obligation** | |  | **Income (Loss)** | |  | **Interests** | | **Total Equity** | |
|  |  |  |  |  |  |  |  |  |  |  |  | **(Amounts in thousands)** | | | | | |  |  |  |  |  |  |  |  |  |  |
| **Balance — April 1, 2022** | 176,793 |  | $ | 220,991 |  | $ | 496,151 |  | $ | 3,648,678 |  | (46,424) |  | $ | (2,039,900) |  | $ | 7,122 |  | $ | (578,053) |  | $ | 36,066 |  | $ | 1,791,055 |
| Stock activity under stock plans | — | |  | — | |  | (2,024) |  |  | — | | 47 |  |  | 2,061 |  |  | (201) |  |  | — | |  | — | |  | (164) |
| Stock-based compensation | — | |  |  |  |  | 5,886 |  |  | — | | — | |  | — | |  | — | |  | — | |  | — | |  | 5,886 |
| Net earnings | — | |  | — | |  | — | |  | 44,777 |  | — | |  | — | |  | — | |  | — | |  | 1,318 |  |  | 46,095 |
| Cash dividends declared | — | |  | — | |  | — | |  | (26,520) |  | — | |  | — | |  | — | |  | — | |  | — | |  | (26,520) |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (loss), net of tax | — | |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | (57,565) |  |  | 4 |  |  | (57,561) |
| Other, net | — | |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | — | |  | (4,898) |  |  | (4,898) |
| **Balance — June 30, 2022** | 176,793 |  | $ | 220,991 |  | $ | 500,013 |  | $ | 3,666,935 |  | (46,377) |  | $ | (2,037,839) |  | $ | 6,921 |  | $ | (635,618) |  | $ | 32,490 |  | $ | 1,753,893 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance — April 1, 2021** | 176,793 |  | $ | 220,991 |  | $ | 488,906 |  | $ | 3,658,158 |  | (46,496) |  | $ | (2,045,937) |  | $ | 6,114 |  | $ | (616,200) |  | $ | 29,754 |  | $ | 1,741,786 |
| Stock activity under stock plans | — | |  | — | |  | (1,397) |  |  | — | | 1 |  |  | 107 |  |  | 963 |  |  | — | |  | — | |  | (327) |
| Stock-based compensation | — | |  | — | |  | 6,712 |  |  | — | | — | |  | — | |  | — | |  | — | |  | — | |  | 6,712 |
| Net earnings | — | |  | — | |  | — | |  | 45,354 |  | — | |  | — | |  | — | |  | — | |  | 2,390 |  |  | 47,744 |
| Cash dividends declared | — | |  | — | |  | — | |  | (26,395) |  | — | |  | — | |  | — | |  | — | |  | — | |  | (26,395) |
| Repurchases of common shares | — | |  | — | |  | — | |  | — | | (311) |  |  | (12,449) |  |  | — | |  | — | |  | — | |  | (12,449) |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (loss), net of tax | — | |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | 16,058 |  |  | 14 |  |  | 16,072 |
| Other, net | — | |  | — | |  | — | |  | — | | — | |  | — | |  | — | |  | (1) |  |  | (2,450) |  |  | (2,451) |
| **Balance — June 30, 2021** | 176,793 |  | $ | 220,991 |  | $ | 494,221 |  | $ | 3,677,117 |  | (46,806) |  | $ | (2,058,279) |  | $ | 7,077 |  | $ | (600,143) |  | $ | 29,708 |  | $ | 1,770,692 |
|  |  |  |  |  |  |  | See accompanying notes to condensed consolidated financial | | | | | | | | |  | statements. | |  |  |  |  |  |  |  |  |  |

4



Table of Contents

**FLOWSERVE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Total Flowserve Corporation Shareholders’ Equity** | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Accumulated** |  |  |  |  |  |  |  |
|  | **Common Stock** | | | | |  | **Capital** |  |  |  |  | **Treasury Stock** | | | | |  | **Deferred** | |  | **Other** | |  | **Non-** | |  |  |  |
|  |  |  |  |  |  |  | **in Excess of** |  |  | **Retained** | |  |  |  |  |  |  | **Compensation** | |  | **Comprehensive** | |  | **controlling** | |  |  |  |
|  | **Shares** | |  | **Amount** | |  |  |  | **Shares** |  |  | **Amount** | |  |  |  |  | **Total Equity** |  |
|  |  |  | **Par Value** |  |  | **Earnings** | |  |  |  | **Obligation** | |  | **Income (Loss)** | |  | **Interests** | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **(Amounts in thousands)** | | | | | | |  |  |  |  |  |  |  |  |  |
| **Balance — January 1, 2022** | 176,793 |  | $ | 220,991 |  | $ | 506,386 | $ | | 3,691,023 |  | (46,794) | $ | | (2,057,706) |  | $ | 7,214 |  | $ | (563,589) |  | $ | 33,026 |  | $ | 1,837,345 |  |
| Stock activity under stock plans | — | |  | — | |  | (23,270) |  |  | — | | 417 |  |  | 19,867 |  |  | (293) |  |  | — | |  | — | |  | (3,696) |  |
| Stock-based compensation | — | |  | — | |  | 16,897 |  |  | — | | — |  |  | — | |  | — | |  | — | |  | — | |  | 16,897 |  |
| Net earnings | — | |  | — | |  | — |  |  | 28,960 |  | — |  |  | — | |  | — | |  | — | |  | 3,458 |  |  | 32,418 |  |
| Cash dividends declared | — | |  | — | |  | — |  |  | (53,048) |  | — |  |  | — | |  | — | |  | — | |  | — | |  | (53,048) |  |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (loss), net of tax | — | |  | — | |  | — |  |  | — | | — |  |  | — | |  | — | |  | (72,029) |  |  | 1,340 |  |  | (70,689) |  |
| Other, net | — | |  | — | |  | — |  |  | — | | — |  |  | — | |  | — | |  | — | |  | (5,334) |  |  | (5,334) |  |
| **Balance — June 30, 2022** | 176,793 |  | $ | 220,991 |  | $ | 500,013 |  | $ | 3,666,935 |  | (46,377) |  | $ | (2,037,839) |  | $ | 6,921 |  | $ | (635,618) |  | $ | 32,490 |  | $ | 1,753,893 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance — January 1, 2021** | 176,793 |  | $ | 220,991 |  | $ | 502,227 | $ | | 3,670,543 |  | (46,768) | $ | | (2,059,309) |  | $ | 6,164 |  | $ | (609,625) |  | $ | 30,330 |  | $ | 1,761,321 |  |
| Stock activity under stock plans | — | |  | — | |  | (24,478) |  |  | — | | 402 |  |  | 18,561 |  |  | 913 |  |  | — | |  | — | |  | (5,004) |  |
| Stock-based compensation | — | |  | — | |  | 16,472 |  |  | — | | — |  |  | — | |  | — | |  | — | |  | — | |  | 16,472 |  |
| Net earnings | — | |  | — | |  | — |  |  | 59,434 |  | — |  |  | — | |  | — | |  | — | |  | 5,471 |  |  | 64,905 |  |
| Cash dividends declared | — | |  | — | |  | — |  |  | (52,860) |  | — |  |  | — | |  | — | |  | — | |  | — | |  | (52,860) |  |
| Repurchases of common shares | — | |  | — | |  | — |  |  | — | | (440) |  |  | (17,531) |  |  | — | |  | — | |  | — | |  | (17,531) |  |
| Other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (loss), net of tax | — | |  | — | |  | — |  |  | — | | — |  |  | — | |  | — | |  | 9,482 |  |  | 162 |  |  | 9,644 |  |
| Other, net | — | |  | — | |  | — |  |  | — | | — |  |  | — | |  | — | |  | — | |  | (6,255) |  |  | (6,255) |  |
| **Balance — June 30, 2021** | 176,793 |  | $ | 220,991 |  | $ | 494,221 |  | $ | 3,677,117 |  | (46,806) |  | $ | (2,058,279) |  | $ | 7,077 |  | $ | (600,143) |  | $ | 29,708 |  | $ | 1,770,692 |  |

See accompanying notes to condensed consolidated financial statements.

5



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table of Contents | |  |  |  |  |  |
|  | **FLOWSERVE CORPORATION** |  |  |  |  |  |
|  | **CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** | |  |  |  |  |
|  | **(Unaudited)** |  |  |  |  |  |
|  | (Amounts in thousands) |  | **Six Months Ended June 30,** | | | |
|  |  |  | **2022** |  |  | **2021** |
|  | **Cash flows – Operating activities:** |  |  |  |  |  |
|  | Net earnings, including noncontrolling interests | $ | 32,418 |  | $ | 64,905 |
|  | Adjustments to reconcile net earnings to net cash provided (used) by operating activities: |  |  |  |  |  |
|  | Depreciation |  | 40,034 |  |  | 44,491 |
|  | Amortization of intangible and other assets |  | 6,748 |  |  | 7,433 |
|  | Loss on extinguishment of debt |  | — | |  | 7,610 |
|  | Stock-based compensation |  | 16,896 |  |  | 16,472 |
|  | Foreign currency, asset write downs and other non-cash adjustments |  | (3,982) |  |  | 12,460 |
|  | Change in assets and liabilities: |  |  |  |  |  |
|  | Accounts receivable, net |  | (21,638) |  |  | 14,285 |
|  | Inventories, net |  | (96,737) |  |  | (30,784) |
|  | Contract assets, net |  | (7,705) |  |  | 12,232 |
|  | Prepaid expenses and other assets, net |  | (19,769) |  |  | (16,187) |
|  | Accounts payable |  | 33,550 |  |  | (41,146) |
|  | Contract liabilities |  | 9,642 |  |  | 17,026 |
|  | Accrued liabilities and income taxes payable |  | (65,773) |  |  | (37,123) |
|  | Retirement obligations and other |  | 10,028 |  |  | (2,761) |
|  | Net deferred taxes |  | (5,079) |  |  | (7,607) |
|  | Net cash flows provided (used) by operating activities |  | (71,367) |  |  | 61,306 |
|  | **Cash flows – Investing activities:** |  |  |  |  |  |
|  | Capital expenditures |  | (31,012) |  |  | (22,541) |
|  | Proceeds from disposal of assets and other |  | 2,015 |  |  | (1,299) |
|  | Net cash flows provided (used) by investing activities |  | (28,997) |  |  | (23,840) |
|  | **Cash flows – Financing activities:** |  |  |  |  |  |
|  | Payments on senior notes |  | — | |  | (407,473) |
|  | Payments on term loan |  | (15,921) |  |  | — |
|  | Proceeds under other financing arrangements |  | 1,029 |  |  | 1,386 |
|  | Payments under other financing arrangements |  | (720) |  |  | (3,256) |
|  | Repurchases of common shares |  | — | |  | (17,531) |
|  | Payments related to tax withholding for stock-based compensation |  | (4,497) |  |  | (5,777) |
|  | Payments of dividends |  | (52,267) |  |  | (52,168) |
|  | Other |  | (5,334) |  |  | (6,275) |
|  | Net cash flows provided (used) by financing activities |  | (77,710) |  |  | (491,094) |
|  | Effect of exchange rate changes on cash |  | (22,033) |  |  | (11,249) |
|  | Net change in cash and cash equivalents |  | (200,107) |  |  | (464,877) |
|  | Cash and cash equivalents at beginning of period |  | 658,452 |  |  | 1,095,274 |
|  | Cash and cash equivalents at end of period | $ | 458,345 |  | $ | 630,397 |
|  |  |  |  |  |  |  |

See accompanying notes to condensed consolidated financial statements.

6



Table of Contents

**FLOWSERVE CORPORATION**

**(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, 2022 and December 31, 2021, and the related condensed consolidated statements of income, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of shareholders' equity for the three and six months ended June 30, 2022 and 2021 and condensed consolidated statements of cash flows for the six months ended June 30, 2022 and 2021 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. 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, 2022 ("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, 2021 ("2021 Annual Report").

*Coronavirus Pandemic ("COVID-19")* - During the first six months of 2022, we continue to be challenged by macroeconomics and global economicimpacts based on the disruption and uncertainties caused by COVID-19. As a result of the COVID-19 pandemic’s effect on oil prices, many of our large customers reduced capital expenditures and budgets in 2020. To date, while we have seen customer maintenance, repair and overhaul ("MRO") and aftermarket spending return to pre-pandemic levels, and although we are seeing momentum in project-based capital expenditures, such oil and gas business has yet to return to pre-pandemic levels. In addition, many of our suppliers have also experienced varying lengths of production and shipping delays related to the COVID-19 pandemic and its effects, some of which continue to exist in highly affected countries. 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. As a result of the macroeconomic impact of COVID-19 we have also experienced labor constraints and inflationary pressures.

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.

*Russia and Ukraine Conflict -* In response to the ongoing military conflict in Ukraine, several countries, including the United States, have imposedeconomic sanctions and export controls on certain industry sectors and parties in Russia. As a result of this conflict, including the aforementioned sanctions and overall instability in the region, in February 2022 we stopped accepting new orders in Russia and temporarily suspended fulfillment of existing orders. In March 2022, we made the decision to permanently cease all Company operations in Russia. We have commenced the necessary actions to cease operations of our Russian subsidiary, including taking steps to cancel existing contracts with customers, terminate our approximately 50 Russia-based employees and terminate other related contractual commitments, and currently expect this process to continue throughout 2022.

In 2021 our Russian subsidiary had approximately $14 million of sales with an additional $36 million of sales from certain of our other foreign subsidiaries into the Russian market. As of March 31, 2022, the net assets held on our Russian subsidiary's balance sheet were $2.7 million, including $7.1 million of cash, $3.6 million of accounts receivables, a $9.3 million net intercompany payable position and other immaterial amounts. In addition, certain of our other foreign subsidiaries had open contracts with Russian customers that were subsequently cancelled for which revenue had been previously recognized over time utilizing the percentage of completion ("POC") method. As a result of the above, in the first quarter of 2022 we recorded a

7



Table of Contents

$20.2 million pre-tax charge ($21.0 million after-tax) to reserve the asset positions of our Russian subsidiary (excluding cash) as of March 31, 2022, to record a contra-revenue for previously recognized revenue and estimated cancellation fees on open contracts that were previously accounted for under POC and subsequently canceled, to establish a reserve for the estimated cost to exit the operations of our Russian subsidiary and to record a reserve for our estimated financial exposure on contracts that have or are anticipated to be cancelled. We reevaluated our financial exposure as of June 30, 2022 and concluded that the reserve recorded as of March 31, 2022 is sufficient and no changes to material reserves were needed.

The following table presents the above impacts of the Russia pre-tax charge:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) | **Flowserve Pump Division** | | |  | **Flow Control Division** | |  | **Consolidated Total** |
| Sales | $ | (5,429) |  | $ | (2) |  | $ | (5,431) |
| Cost of sales |  | 3,510 |  |  | 1,112 |  |  | 4,622 |
| Gross loss |  | (8,939) |  |  | (1,114) |  |  | (10,053) |
| Selling, general and administrative expense |  | 9,111 |  |  | 1,082 |  |  | 10,193 |
| Operating loss | $ | (18,050) |  | $ | (2,196) |  | $ | (20,246) |
|  |  |  |  |  |  |  |  |  |

We continue to monitor the situation involving Russia and Ukraine and its impact on the rest of our global business. This includes the macroeconomic impact, including with respect to global supply chain issues and inflationary pressures. To date, these impacts have not been material to our business and we do not currently expect that any incremental impact in future quarters, including any financial impacts caused by our cancellation of customer contracts and ceasing of operations in Russia, will be material to the Company.

**Accounting Developments**

***Pronouncements Not Yet Implemented***

In October 2021, the FASB issued ASU No. 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." The amendments in this Update improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. We do not expect the impact of this ASU to be material.

In November 2021, the FASB issued ASU No. 2021-10, "Government Assistance (Topic 832)." The amendments in this ASU do not change GAAP and, therefore, are not expected to result in a significant change in practice. Rather, the amendments aim to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The amendments are effective for annual periods beginning after December 15, 2021 and can be applied either prospectively or retrospectively. We do not expect the impact of this ASU to be material.

In March 2022, the FASB issued ASU No. 2022-02, "Troubled Debt Restructurings and Vintage Disclosures." The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the Current Expected Credit Loss ("CECL") model and enhance the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively. We are evaluating the impact of this ASU on our disclosures.

1. **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 the asset.

8



Table of Contents

Our primary method for recognizing revenue over time is the POC method. Revenue from products and services transferred to customers over time accounted for approximately 13% and 15% of total revenue for the three month period ended June 30, 2022 and 2021, respectively, and 12% and 16% for the six month period ended June 30, 2022 and 2021, 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 87% and 85% of total revenue for the three month period ended June 30, 2022 and 2021, respectively, and 88% and 84% for the six month period ended June 30, 2022 and 2021, respectively. Refer to Note 3 to our consolidated financial statements included in our 2021 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") designs and manufactures 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") designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products and related equipment.

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 tables present our customer revenues disaggregated by revenue source:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) |  | **FPD** | |  | **FCD** | |  | **Total** |
| Original Equipment | $ | 212,760 |  | $ | 198,597 |  | $ | 411,357 |
| Aftermarket |  | 401,665 |  |  | 69,200 |  |  | 470,865 |
|  | $ | 614,425 |  | $ | 267,797 |  | $ | 882,222 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30, 2021** | | | | | |  |
|  | **FPD** |  |  |  | **FCD** | |  | **Total** |
| Original Equipment | $ | 220,387 |  | $ | 214,097 |  | $ | 434,484 |
| Aftermarket |  | 397,047 |  |  | 66,647 |  |  | 463,694 |
|  | $ | 617,434 |  | $ | 280,744 |  | $ | 898,178 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Six Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) |  | **FPD** |  |  |  | **FCD** | |  | **Total** |
| Original Equipment | $ | 413,100 |  |  | $ | 381,439 |  | $ | 794,539 |
| Aftermarket |  | 775,312 |  |  |  | 133,429 |  |  | 908,741 |
|  | $ | 1,188,412 |  |  | $ | 514,868 |  | $ | 1,703,280 |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Six Months Ended June 30, 2021** | | | | | |  |
|  | **FPD** |  |  |  |  | **FCD** | |  | **Total** |
| Original Equipment | $ | 434,541 |  |  | $ | 406,817 |  | $ | 841,358 |
| Aftermarket |  | 785,059 |  |  |  | 129,069 |  |  | 914,128 |
|  | $ | 1,219,600 |  |  | $ | 535,886 |  | $ | 1,755,486 |
|  |  |  |  |  |  |  |  |  |  |

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

9



Table of Contents

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) |  | **FPD** | |  | **FCD** | |  | **Total** |
| North America(1) | $ | 265,657 |  | $ | 119,791 |  | $ | 385,448 |
| Latin America(2) |  | 48,294 |  |  | 4,955 |  |  | 53,249 |
| Middle East and Africa |  | 84,935 |  |  | 22,049 |  |  | 106,984 |
| Asia Pacific |  | 97,557 |  |  | 72,418 |  |  | 169,975 |
| Europe |  | 117,982 |  |  | 48,584 |  |  | 166,566 |
|  | $ | 614,425 |  | $ | 267,797 |  | $ | 882,222 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30, 2021** | | | | | |  |
|  | **FPD** |  |  |  | **FCD** | |  | **Total** |
| North America(1) | $ | 243,611 |  | $ | 98,118 |  | $ | 341,729 |
| Latin America(2) |  | 52,219 |  |  | 8,879 |  |  | 61,098 |
| Middle East and Africa |  | 69,662 |  |  | 26,530 |  |  | 96,192 |
| Asia Pacific |  | 119,375 |  |  | 88,944 |  |  | 208,319 |
| Europe |  | 132,567 |  |  | 58,273 |  |  | 190,840 |
|  | $ | 617,434 |  | $ | 280,744 |  | $ | 898,178 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Six Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) |  | **FPD** |  |  |  | **FCD** | |  | **Total** |
| North America(1) | $ | 504,368 |  |  | $ | 227,429 |  | $ | 731,797 |
| Latin America(2) |  | 95,914 |  |  |  | 10,504 |  |  | 106,418 |
| Middle East and Africa |  | 156,636 |  |  |  | 43,398 |  |  | 200,034 |
| Asia Pacific |  | 199,156 |  |  |  | 140,209 |  |  | 339,365 |
| Europe |  | 232,338 |  |  |  | 93,328 |  |  | 325,666 |
|  | $ | 1,188,412 |  |  | $ | 514,868 |  | $ | 1,703,280 |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Six Months Ended June 30, 2021** | | | | | |  |
|  | **FPD** |  |  |  |  | **FCD** | |  | **Total** |
| North America(1) | $ | 467,582 |  |  | $ | 188,368 |  | $ | 655,950 |
| Latin America(2) |  | 94,256 |  |  |  | 15,694 |  |  | 109,950 |
| Middle East and Africa |  | 152,207 |  |  |  | 54,226 |  |  | 206,433 |
| Asia Pacific |  | 244,027 |  |  |  | 167,600 |  |  | 411,627 |
| Europe |  | 261,528 |  |  |  | 109,998 |  |  | 371,526 |
|  | $ | 1,219,600 |  |  | $ | 535,886 |  | $ | 1,755,486 |
|  |  |  |  |  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. North America represents the United States and Canada.
2. Latin America includes Mexico.

On June 30, 2022, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately $562 million. We estimate recognition of approximately $258 million of this amount as revenue in the remainder of 2022 and an additional $304 million in 2023 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.

10



Table of Contents

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, 2022 and 2021: |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Contract Assets,** | | |  | **Long-term** | |  |  | **Contract** | |  | **Long-term** |  |
|  | **Contract Assets,** | | |  |  | **Liabilities** | |  | **Contract** |  |
| (Amounts in thousands) |  | **net (Current)** | |  | **net(1)** | |  |  | **(Current)** | |  | **Liabilities(2)** |  |
| Beginning balance, January 1, 2022 | $ | 195,598 |  | $ | 426 |  | $ | | 202,965 |  | $ | 464 |  |
| Revenue recognized that was included in contract liabilities at the |  |  |  |  |  |  |  |  |  |  |  |  |  |
| beginning of the period |  | — | |  | — | |  |  | (118,177) |  |  | — |  |
| Revenue recognized in the period in excess of billings |  | 256,608 |  |  | 1,659 |  |  |  | — | |  | — |  |
| Billings arising during the period in excess of revenue recognized |  | — | |  | — | |  |  | 122,502 |  |  | — |  |
| Amounts transferred from contract assets to receivables |  | (246,405) |  |  | (380) |  |  |  | 230 |  |  | — |  |
| Currency effects and other, net |  | (8,673) |  |  | (1,671) |  |  |  | (2,345) |  |  | (19) |  |
| Ending balance, June 30, 2022 | $ | 197,128 |  | $ | 34 |  | $ | | 205,175 |  | $ | 445 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Contract Assets,** | | |  | **Long-term** | |  |  | **Contract** | |  | **Long-term** |  |
|  | **Contract Assets,** | | |  |  | **Liabilities** | |  | **Contract** |  |
| (Amounts in thousands) |  | **net (Current)** | |  | **net(1)** | |  |  | **(Current)** | |  | **Liabilities(2)** |  |
| Beginning balance, January 1, 2021 | $ | 277,734 |  | $ | 1,139 |  |  | $ | 194,227 |  | $ | 822 |  |
| Revenue recognized that was included in contract liabilities at the |  |  |  |  |  |  |  |  |  |  |  |  |  |
| beginning of the period |  | — | |  | — | |  |  | (112,835) |  |  | — |  |
| Revenue recognized in the period in excess of billings |  | 321,040 |  |  | 54 |  |  |  | — | |  | — |  |
| Billings arising during the period in excess of revenue recognized |  | — | |  | — | |  |  | 126,591 |  |  | — |  |
| Amounts transferred from contract assets to receivables |  | (326,634) |  |  | (28) |  |  |  | — | |  | — |  |
| Currency effects and other, net |  | (9,909) |  |  | (86) |  |  |  | 1,109 |  |  | (19) |  |
| Ending balance, June 30, 2021 | $ | 262,231 |  | $ | 1,079 |  |  | $ | 209,092 |  | $ | 803 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Included in other assets, net.
2. Included in retirement obligations and other liabilities.
3. **Allowance for Expected Credit Losses**

The allowance for credit losses is an estimate of the credit losses expected over the life of our financial assets and instruments. We assess and measure expected credit losses on a collective basis when similar risk characteristics exist, including market, geography, credit risk and remaining duration. Financial assets and instruments that do not share risk characteristics are evaluated on an individual basis. Our estimate of the allowance is assessed and quantified using internal and external valuation information relating to past events, current conditions and reasonable and supportable forecasts over the contractual terms of an asset.

Our primary exposure to expected credit losses is through our 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. Primarily, our experience of historical credit losses provides the basis for our estimation of the allowance. We estimate the allowance based on an aging schedule and according to historical losses as determined from our history of billings and collections. 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 geopolitical risks. We also consider both the current and forecasted macroeconomic conditions as of the reporting date. As identified and needed, 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 previously written off amounts are reflected as a reduction to credit impairment losses in the condensed consolidated statements of income.

11



Table of Contents

Contract assets represent a conditional right to consideration for satisfied performance obligations that become a receivable when the conditions are satisfied. Generally, contract assets are recorded when contractual billing schedules differ from revenue recognition based on timing and are managed through the revenue recognition process. Based on our historical credit loss experience, the current expected credit loss for contract assets is estimated to be approximately 1% of the asset balance.

The following table presents the changes in the allowance for expected credit losses for our trade receivables and contract assets for the six months ended

June 30, 2022 and 2021:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Amounts in thousands) |  | **Trade receivables** | |  | **Contract assets** |
| Beginning balance, January 1, 2022 | $ | 74,336 |  | $ | 2,393 |
| Charges to cost and expenses, net of recoveries |  | 6,763 |  |  | 1,338 |
| Write-offs |  | (600) |  |  | — |
| Currency effects and other, net |  | (1,723) |  |  | (27) |
| Ending balance, June 30, 2022 | $ | 78,776 |  | $ | 3,704 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Beginning balance, January 1, 2021 | $ | 75,176 |  | $ | 3,205 |
| Charges to cost and expenses, net of recoveries |  | 865 |  |  | — |
| Write-offs |  | (2,015) |  |  | — |
| Currency effects and other, net |  | 756 |  |  | (167) |
| Ending balance, June 30, 2021 | $ | 74,782 |  | $ | 3,038 |
|  |  |  |  |  |  |

Our allowance on long-term receivables, included in other assets, net, represent receivables with collection periods longer than 12 months and the balance primarily consists of reserved receivables associated with the national oil company in Venezuela. The following table presents the changes in the allowance for long-term receivables for the six months ended June 30, 2022 and 2021:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Balance at January 1 | $ | 67,696 |  | $ | 67,842 |
| Currency effects and other, net |  | 272 |  |  | (72) |
| Balance at June 30 | $ | 67,968 |  | $ | 67,770 |
|  |  |  |  |  |  |

We also 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, 2022.

1. **Stock-Based Compensation Plans**

We maintain the Flowserve Corporation 2020 Long-Term Incentive Plan (“2020 Plan”), which is a shareholder approved plan authorizing 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. Of the shares of common stock authorized under the 2020 Plan, 9,669,056 were available for issuance as of June 30, 2022. 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, 2022, 114,943 stock options were outstanding. No stock options were granted or vested during the six months ended June 30, 2022 and 2021.

*Restricted Shares* – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearnedcompensation 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 $34.0 million and $24.2 million at June 30, 2022 and December 31, 2021, 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, 2022 and 2021 was $1.9 million and $0.9 million**,** respectively. The total fair value of Restricted Shares vested during the six months ended June 30, 2022 and 2021 was $22.5 million and $24.4 million**,** respectively.

We recorded stock-based compensation expense of $4.6 million ($5.9 million pre-tax) and $5.1 million ($6.7 million pre-tax) for the three months ended June 30, 2022 and 2021, respectively. We recorded stock-based compensation expense of $13.1

12



Table of Contents

million ($16.9 million pre-tax) and $12.7 million ($16.5 million pre-tax) for the six months ended June 30, 2022 and 2021, respectively.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| The following table summarizes information regarding Restricted Shares: |  |  |  |  |  |
|  | **Six Months Ended June 30, 2022** | | | |  |
|  |  |  |  | **Weighted Average** |  |
|  | **Shares** | |  | **Grant-Date Fair** |  |
|  |  | **Value** |  |
| Number of unvested shares: |  |  |  |  |  |
| Outstanding as of January 1, 2022 | 1,671,011 |  | $ | 43.06 |  |
| Granted | 967,278 |  |  | 32.93 |  |
| Vested | (523,055) |  |  | 43.03 |  |
| Forfeited | (214,147) |  |  | 45.72 |  |
| Outstanding as of June 30, 2022 | 1,901,087 |  | $ | 37.62 |  |
|  |  |  |  |  |  |

Unvested Restricted Shares outstanding as of June 30, 2022 included approximately 481,000 units with performance-based vesting provisions issuable in common stock and vest upon the achievement of pre-defined performance metrics. Targets for outstanding performance awards are based on our average return on invested capital, total shareholder return ("TSR") or free cash flow as a percent of net income over a three-year period. Performance units issued in 2022 and 2021 include a secondary measure, relative TSR, which can increase or decrease the number of vesting units by 15% depending on the Company's performance versus peers. Performance units issued in 2022 and 2021 have a vesting percentage between 0% and 230%. Performance units issued in 2020 have a vesting percentage between 0% and 200%. 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, 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 1,059,000 shares based on performance targets. As of June 30, 2022, we estimate vesting of approximately 410,000 shares based on expected achievement of performance targets.

1. **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 9 to our consolidated financial statements included in our 2021 Annual Report and Note 7 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. We have not elected hedge accounting for our foreign exchange forward contracts and the changes in the fair values are recognized immediately in our condensed consolidated statements of income.

Foreign exchange forward contracts with third parties had a notional value of $413.9 million and $425.2 million at June 30, 2022 and December 31, 2021, respectively. At June 30, 2022, the length of foreign exchange forward contracts currently in place ranged from 21 days to 32 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 forward 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 forward contracts are summarized below: |  |  |  |  |  |
|  |  | **June 30,** | |  | **December 31,** |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Current derivative assets | $ | 831 |  | $ | 740 |
| Noncurrent derivative assets |  | — | |  | 2 |
| Current derivative liabilities |  | 5,050 |  |  | 2,924 |
| Noncurrent derivative liabilities |  | 112 |  |  | 82 |

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 forward contracts are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | |  |  |  | **Six Months Ended June 30,** | | | |
| (Amounts in thousands) | **2022** |  |  | **2021** |  |  |  | **2022** |  |  | **2021** |
| Gains (losses) recognized in income | $ | 2,592 |  | $ | (4,312) |  | $ | 233 |  | $ | 1,793 |

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

As a means of managing the volatility of foreign currency exposure with the Euro/U.S. dollar exchange rate, we enter into cross-currency swap agreements as a hedge of our Euro investment in certain of our international subsidiaries. Accordingly, on April 14, 2021 and March 9, 2021, we entered into cross currency swap agreements, with both having termination dates of October 1, 2030 and the March 9, 2021 cross currency swap having an early termination date of March 11, 2025. Also, during the third quarter of 2020 we entered into a cross currency swap agreement with termination date of October 1, 2030 and an early termination date of September 22, 2025. The swap agreements are designated as net investment hedges and as of June 30, 2022 the combined notional value of these swaps was €423.2 million. The swaps are classified as Level II under the fair value hierarchy.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| The fair values of our cross-currency swaps are summarized below: |  |  |  |  |  |
|  |  | **June 30,** | |  | **December 31,** |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Other assets, net | $ | 68,990 |  | $ | 23,129 |

We exclude the interest accruals on the swaps from the assessment of hedge effectiveness and recognize the interest accruals in earnings within interest expense. For each reporting period, the change in the fair value of the swaps attributable to changes in the spot rate and differences between the change in the fair value of the excluded components and the amounts recognized in earnings under the swap accrual process are reported in accumulated other comprehensive loss ("AOCL") on our consolidated balance sheet. For the three and six months ending June 30, 2022, an interest accrual of $2.1 million and $4.2 million, respectively, was recognized within interest expense in our condensed consolidated statements of income. For the three months and six months ending June 30, 2021, an interest accrual of $1.8 million and $2.4 million, respectively, was recognized within interest expense.

The cumulative net investment hedge (gains) losses, net of deferred taxes, under cross-currency swaps recorded in AOCL on our condensed consolidated balance sheet are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | |  |  |  | **Six Months Ended June 30,** | | | |
| (Amounts in thousands) | **2022** |  |  | **2021** |  |  |  | **2022** |  |  | **2021** |
| (Gain) loss-included component (1) | $ | (18,870) |  | $ | 1,798 |  | $ | (44,256) |  | $ | 185 |
| (Gain) loss-excluded component (2) |  | (7,634) |  |  | (11,749) |  |  | (8,508) |  |  | 3,890 |
| (Gain) loss recognized in AOCL | $ | (26,504) |  | $ | (9,951) |  | $ | (52,764) |  | $ | 4,075 |
|  |  |  |  |  |  |  |  |  |  |  |  |

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1. Change in the fair value of the swaps attributable to changes in spot rates.
2. Change in the fair value of the swaps due to changes other than those attributable to spot rates.

In March 2015, we designated €255.7 million of our 1.25% EUR 2022 Senior Notes ("2022 Euro Senior Notes") as a net investment hedge of our Euro investment in certain of our international subsidiaries. On September 22, 2020, we increased the designated hedged value on the 2022 Euro Senior Notes to €336.3 million, which reflected the remaining balance of the 2022 Euro Senior Notes. For each reporting period, the change in the carrying value due to the remeasurement of the effective portion was reported in AOCL on our condensed consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, was recognized in other income (expense), net in our condensed consolidated statements of income. As a result of the redemption of our 2022 Euro Senior Notes in the first quarter of 2021, we dedesignated the hedged value of our net investment hedge.

Prior to the dedesignation, the cumulative impact recorded in AOCL on our condensed consolidated balance sheet from the change in carrying value due to the remeasurement of the effective portion of the net investment hedge is summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | |  |  | **Six Months Ended June 30,** | | | |  |
| (Amounts in thousands) | **2022** | **2021** | | | **2022** | | | **2021** | | |  |
| Loss recognized in AOCL | $ | — |  | $ | — |  | $ | — |  | $ | 29,554 |

We use the spot method to measure the effectiveness of our net investment hedges and evaluate the effectiveness on a prospective basis at the beginning of each quarter. We did not record any ineffectiveness during the three and six months ended June 30, 2022 and 2021, respectively.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **6. Debt** |  |  |  |  |  |
| Debt, including finance lease obligations, net of discounts and debt issuance costs, consisted of: |  |  |  |  |  |
|  |  | **June 30,** | |  | **December 31,** |
| (Amounts in thousands, except percentages) |  | **2022** |  |  | **2021** |
| 3.50% USD Senior Notes due October 1, 2030, net of unamortized discount and debt issuance costs of |  |  |  |  |  |
| $5,335 and $5,611, respectively | $ | 494,665 |  | $ | 494,389 |
| 2.80% USD Senior Notes due January 15, 2032, net of unamortized discount and debt issuance costs of |  |  |  |  |  |
| $6,003 and $6,273, respectively |  | 493,997 |  |  | 493,727 |
| Term Loan Facility, interest rate of 3.50% at June 30, 2022 and 1.45% at December 31, 2021, net of debt |  |  |  |  |  |
| issuance costs of $540 and $639, respectively |  | 276,960 |  |  | 291,861 |
| Finance lease obligations and other borrowings |  | 22,320 |  |  | 22,851 |
| Debt and finance lease obligations |  | 1,287,942 |  |  | 1,302,828 |
| Less amounts due within one year |  | 46,306 |  |  | 41,058 |
| Total debt due after one year | $ | 1,241,636 |  | $ | 1,261,770 |
|  |  |  |  |  |  |

**Senior Notes**

On March 19, 2021, we redeemed the remaining $400.9 million of our 2022 Euro Senior Notes and recorded a loss on early extinguishment of $7.6 million in the first quarter of 2021, which included the impact of a $6.6 million make-whole premium.

**Senior Credit Facility**

As discussed in Note 13 to our consolidated financial statements included in our 2021 Annual Report, we amended our credit agreement ("Amended and Restated Credit Agreement") under our Senior Credit Facility ("Credit Facility") with Bank of America, N.A. ("Administrative Agent") and the other lenders to provide greater flexibility in maintaining adequate liquidity and access to available borrowings. The Amended and Restated Credit Agreement, (i) retained, from the previous credit agreement, the $800.0 million unsecured Revolving Credit Facility, which includes a $750.0 million sublimit for the issuance of letters of credit and a $30.0 million sublimit for swing line loans, (ii) provides for an up to $300 million unsecured Term Loan Facility (the "Term Loan"), (iii) extends the maturity date of the agreement to September 13, 2026, (iv) reduces commitment fees, (v) extends net leverage ratio covenant definition through the maturity of the agreement, and (vi) provides the ability to make certain adjustments to the otherwise applicable commitment fee, interest rate and letter of credit fees based on the Company’s performance against to-be-established key performance indicators with respect to certain of the Company’s environmental, social and governance targets.

The interest rates per annum applicable to the Revolving Credit Facility are unchanged under the Amended and Restated Credit Agreement. The interest rates per annum applicable to the 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. ("Moody's") or Standard & Poor’s Financial Services LLC ("S&P"), or, at our option, the Base Rate (as defined in the Amended and Restated Credit Agreement) plus between 0.000% to 0.750% depending on our debt rating by either Moody’s or S&P. At June 30, 2022, the interest rate on the Revolving 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 Credit Facility. The commitment fee will be between 0.080% and 0.250% of unused amounts under the Credit Facility depending on our debt rating by either Moody’s or S&P. The commitment fee was 0.175% (per annum) during the three and six ended June 30, 2022.

Under the terms and conditions of the Amended and Restated Credit Agreement, interest rates per annum applicable to the Term Loan are stated as LIBOR plus between 0.875% to 1.625%, depending on the Company’s debt rating by either Moody’s

or S&P, or, at the option of the Company, the Base Rate plus between 0.000% to 0.625% depending on the Company’s debt rating by either Moody’s or S&P.

As of June 30, 2022 and December 31, 2021, we had no revolving loans outstanding and we had outstanding letters of credit of $66.2 million and $78.3 million at June 30, 2022 and December 31, 2021, respectively. After consideration of the financial covenants under our Senior Credit Facility and outstanding letters of credit, as of June 30, 2022, the amount available for borrowings was limited to $277.1 million. As of December 31, 2021, the amount available for borrowings under our Revolving Credit Facility was $614.2 million.

Our compliance with applicable financial covenants under the Senior Notes and Credit Facility are tested quarterly. We were in compliance with all applicable covenants as of June 30, 2022. We have scheduled repayments on our Term Loan of $7.5 million due in the third quarter of 2022 and $10.0 million due in each of the subsequent three quarters through June 30, 2023

1. **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.

The carrying value of our financial instruments as reflected in our condensed consolidated balance sheets approximates fair value, 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 determined using Level II inputs 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, 2022 was $832.3 million compared to the carrying value of $988.7 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, 2022 and December 31, 2021.

1. **Inventories**

Inventories, net consisted of the following:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30,** | |  | **December 31,** |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Raw materials | $ | 348,402 |  | $ | 318,348 |
| Work in process |  | 273,677 |  |  | 242,143 |
| Finished goods |  | 223,211 |  |  | 213,096 |
| Less: Excess and obsolete reserve |  | (96,370) |  |  | (95,300) |
| Inventories, net | $ | 748,920 |  | $ | 678,287 |
|  |  |  |  |  |  |

13



Table of Contents

1. **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,**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Amounts in thousands, except per share data) |  | **2022** |  |  | **2021** |  |
| Net earnings of Flowserve Corporation | $ | 44,777 |  | $ | 45,354 |  |
| Dividends on restricted shares not expected to vest |  | — | |  | — |  |
| Earnings attributable to common and participating shareholders | $ | 44,777 |  | $ | 45,354 |  |
| Weighted average shares: |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Common stock |  | 130,626 |  |  | 130,279 |  |
| Participating securities |  | 40 |  |  | 26 |  |
| Denominator for basic earnings per common share |  | 130,666 |  |  | 130,305 |  |
| Effect of potentially dilutive securities |  | 579 |  |  | 499 |  |
| Denominator for diluted earnings per common share |  | 131,245 |  |  | 130,804 |  |
| Earnings per common share: |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Basic | $ | 0.34 |  | $ | 0.35 |  |
| Diluted |  | 0.34 |  |  | 0.35 |  |

**Six Months Ended June 30,**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Amounts in thousands, except per share data) |  | **2022** |  |  | **2021** |  |
| Net earnings of Flowserve Corporation | $ | 28,960 |  | $ | 59,434 |  |
| Dividends on restricted shares not expected to vest |  | — | |  | — |  |
| Earnings attributable to common and participating shareholders | $ | 28,960 |  | $ | 59,434 |  |
| Weighted average shares: |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Common stock |  | 130,518 |  |  | 130,342 |  |
| Participating securities |  | 36 |  |  | 24 |  |
| Denominator for basic earnings per common share |  | 130,554 |  |  | 130,366 |  |
| Effect of potentially dilutive securities |  | 594 |  |  | 539 |  |
| Denominator for diluted earnings per common share |  | 131,148 |  |  | 130,905 |  |
| Earnings per common share: |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Basic | $ | 0.22 |  | $ | 0.46 |  |
| Diluted |  | 0.22 |  |  | 0.45 |  |

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.

1. **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. Typically, these lawsuits have been brought against multiple defendants in state and federal courts. While the overall number of asbestos-related claims in which we or our predecessors have been named has generally declined in recent years, there can be no assurance that this trend will continue, or that the average cost per claim to us 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 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, other than legal fees. Activity related to asbestos claims during the periods indicated was as follows:

14



|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table of Contents | |  |  |  |  |  |  |  |  |
|  | **Three Months Ended June 30,** | | | |  |  | **Six Months Ended June 30,** | | |
| **2022** | | **2021** | | |  |  | **2022** |  | **2021** |
| Beginning claims(1) |  | 8,800 |  |  | 8,445 |  | 8,712 |  | 8,366 |
| New claims | | 622 |  |  | 603 |  | 1,295 |  | 1,232 |
| Resolved claims | | (505) |  |  | (479) |  | (1,090) |  | (1,023) |
| Other(2) | | — | | | (10) |  | — | | (16) |
| Ending claims(1) |  | 8,917 |  |  | 8,559 |  | 8,917 |  | 8,559 |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Beginning and ending claims data in each period excludes inactive claims, as the Company considers it unlikely that inactive cases will be pursued further

by the respective plaintiffs. A claim is classified as inactive either due to inactivity over a period of time or if designated as inactive by the applicable court.

1. Represents the net change in claims as a result of the reclassification of active cases as inactive and inactive cases as active during the period indicated. Cases moved from active to inactive status are removed from the claims count without being accounted for as a "Resolved claim", and cases moved from inactive status to active status are added back to the claims count without being accounted for as a “New claim”.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| The following table presents the changes in the estimated asbestos liability: |  |  |  |  |  |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Beginning balance, January 1, | $ | 94,423 |  | $ | 99,530 |
| Asbestos liability adjustments, net |  | — | |  | 1,000 |
| Cash payment activity |  | (2,460) |  |  | (3,761) |
| Other, net |  | (1,819) |  |  | (1,284) |
| Ending balance, June 30, | $ | 90,144 |  | $ | 95,485 |

During the three and six months ended June 30, 2022 the Company incurred expenses (net of insurance) of approximately $1.8 million and $3.6 million, respectively, compared to $1.8 million and $4.5 million, respectively, for the same periods in 2021 to defend, resolve or otherwise dispose of outstanding claims, including legal and other related expenses. These expenses are included within SG&A in our condensed consolidated statements of income.

The Company had cash inflows (outflows) (net of insurance and/or indemnity) to defend, resolve or otherwise dispose of outstanding claims, including legal and other related expenses of approximately $2.7 million and $(7.0) million, respectively, during the six months ended June 30, 2022 and 2021, respectively.

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.

We believe that our reserve for asbestos claims and the receivable for recoveries from insurance carriers that we have recorded for these claims reflects reasonable and probable estimates of these amounts. Our estimate of our ultimate exposure for asbestos claims, however, is subject to significant uncertainties, including the timing and number and types of new claims, unfavorable court rulings, judgments or settlement terms and ultimate costs to settle. Additionally, the continued viability of carriers may also impact the amount of probable insurance recoveries. We believe that these uncertainties could have a material adverse impact on our business, financial condition, results of operations and cash flows, though 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.

15



Table of Contents

***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.

1. **Pension and Postretirement Benefits**

Components of the net periodic cost for pension and postretirement benefits for the three months ended June 30, 2022 and 2021 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **U.S.** | | |  |  |  | **Non-U.S.** | | |  |  |  | **Postretirement** | | | |
|  |  | **Defined Benefit Plans** | | | | |  | **Defined Benefit Plans** | | | | |  | **Medical Benefits** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |  |  | **2022** |  |  | **2021** |  |  | **2022** |  |  | **2021** |
| Service cost | $ | 6.1 |  | $ | 5.8 |  | $ | 1.4 |  | $ | 1.9 |  | $ | — |  | $ | — |
| Interest cost |  | 3.2 |  |  | 2.9 |  |  | 1.6 |  |  | 1.4 |  |  | 0.1 |  |  | 0.1 |
| Expected return on plan assets |  | (6.2) |  |  | (6.2) |  |  | (1.3) |  |  | (1.7) |  |  | — | |  | — |
| Amortization of unrecognized prior service cost and other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| costs |  | — | |  | 0.1 |  |  | 0.2 |  |  | 0.1 |  |  | — | |  | 0.1 |
| Amortization of unrecognized net loss |  | 0.7 |  |  | 2.0 |  |  | 0.7 |  |  | 1.2 |  |  | 0.1 |  |  | — |
| Net periodic cost recognized | $ | 3.8 |  | $ | 4.6 |  | $ | 2.6 |  | $ | 2.9 |  | $ | 0.2 |  | $ | 0.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Components of the net periodic cost for pension and postretirement benefits for the six months ended June 30, 2022 and 2021 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **U.S.** | | |  |  |  | **Non-U.S.** | | |  |  |  | **Postretirement** | | | |
|  |  | **Defined Benefit Plans** | | | | |  | **Defined Benefit Plans** | | | | |  | **Medical Benefits** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |  |  | **2022** |  |  | **2021** |  |  | **2022** |  |  | **2021** |
| Service cost | $ | 12.4 |  | $ | 12.6 |  | $ | 3.0 |  | $ | 3.7 |  | $ | — |  | $ | — |
| Interest cost |  | 6.6 |  |  | 6.0 |  |  | 3.3 |  |  | 2.8 |  |  | 0.2 |  |  | 0.2 |
| Expected return on plan assets |  | (12.7) |  |  | (12.7) |  |  | (2.9) |  |  | (3.2) |  |  | — | |  | — |
| Amortization of unrecognized prior service cost and other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| costs |  | 0.1 |  |  | 0.1 |  |  | 0.3 |  |  | 0.2 |  |  | 0.1 |  |  | 0.1 |
| Amortization of unrecognized net loss |  | 1.7 |  |  | 3.9 |  |  | 1.4 |  |  | 2.3 |  |  | 0.1 |  |  | — |
| Net periodic cost recognized | $ | 8.1 |  | $ | 9.9 |  | $ | 5.1 |  | $ | 5.8 |  | $ | 0.4 |  | $ | 0.3 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

16



Table of Contents

**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 subsequentdividends 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,** | | | |
|  |  | **2022** |  |  | **2021** |  |  | **2022** |  |  | **2021** |
| Dividends declared per share | $ | 0.20 |  | $ | 0.20 |  | $ | 0.40 |  | $ | 0.40 |

*Share Repurchase Program* – In 2014, our Board of Directors approved a $500.0 million share repurchase authorization. Our share repurchase programdoes 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 during three and six months ended June 30, 2022, compared to 311,000 and 440,000 shares, respectively, repurchased for $12.5 million and $17.5 million, respectively, for the same periods in 2021. As of June 30, 2022, we had $96.1 million of remaining capacity under our current share repurchase program.

**13. Income Taxes**

For the three months ended June 30, 2022, we earned $57.7 million before taxes and recorded a provision for income taxes of $11.6 million resulting in an effective tax rate of 20.1%. For the six months ended June 30, 2022, we earned $47.2 million before taxes and recorded a provision for income taxes of $14.8 million resulting in an effective tax rate of 31.4%. The effective tax rate varied from the U.S. federal statutory rate for the three ended June 30, 2022 primarily due to the net impact of foreign operations, partially offset by BEAT. The effective tax rate varied from the U.S. federal statutory rate for the six months ended June 30, 2022 primarily due to the current and anticipated tax impact of the Russia-Ukraine conflict on our business, partially offset by the net impact of foreign operations.

For the three months ended June 30, 2021, we earned $50.5 million before taxes and provided for income taxes of $2.7 million resulting in an effective tax rate of 5.4%. For the six months ended June 30, 2021, we earned $71.4 million before taxes and provided for income taxes of $6.5 million resulting in an effective tax rate of 9.1%. The effective tax rate varied from the U.S. federal statutory rate for the three months ended June 30, 2021 primarily due to the net impact of foreign operations and favorable resolution of audits in foreign jurisdictions. The effective tax rate varied from the U.S. federal statutory rate for the six months ended June 30, 2021, primarily due to the net impact of foreign operations, the reversal of certain deferred tax liabilities as a result of restructuring specific aspects of our global financing arrangements and higher withholding taxes related to transactions with and amongst various foreign subsidiaries.

As of June 30, 2022, the amount of unrecognized tax benefits increased by $6.3 million from December 31, 2021. 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 2015 or non-U.S. income tax audits for years through 2014. We are currently under examination for various years in Canada, China, Germany, India, Indonesia, Italy, Malaysia, Mexico, the 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 $14 million within the next 12 months.

The Company maintains a full valuation allowance against the net deferred tax assets in certain foreign tax jurisdictions as of June 30, 2022. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of net deferred tax assets. It is possible that within the next 12 months there may be sufficient positive evidence to release a portion or all of the valuation allowance in certain foreign tax jurisdictions. Release of these valuation allowances would result in a benefit to income tax expense for the period the release is recorded, which could have a material impact on net earnings. The timing and amount of the potential valuation allowance release are subject to significant management judgment and the level of profitability achieved.

17



Table of Contents

**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, 2022** | | | | | | | | | | | |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | |  |  | **Eliminations and** | | |  |  |  |  |
|  |  |  | **FPD** | | | |  | **FCD** | |  |  |  | **Reportable** | |  |  | **Consolidated Total** | | |  |
| (Amounts in thousands) | |  |  |  |  |  | **Segments** | |  |  |  | **All Other** | |  |
| Sales to external customers | | $ | 614,425 |  |  |  | $ | 267,797 |  |  |  | $ | 882,222 |  |  | $ | | — |  | $ | 882,222 |  |  |
| Intersegment sales | |  | 445 |  |  |  |  | 609 |  |  |  |  | 1,054 |  |  |  |  | (1,054) |  |  | — |  |  |
| Segment operating income | |  | 57,346 |  |  |  |  | 30,369 |  |  |  |  | 87,715 |  |  |  |  | (27,383) |  |  | 60,332 |  |  |
|  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2021** | | | | | | | | | | | |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | |  |  | **Eliminations and** | | |  |  |  |  |
|  |  |  | **FPD** | | | |  | **FCD** | |  |  |  | **Reportable** | |  |  | **Consolidated Total** | | |  |
|  |  |  |  |  |  |  | **Segments** | |  |  |  | **All Other** | |  |
| Sales to external customers | | $ | 617,434 |  |  |  | $ | 280,744 |  |  |  | $ | 898,178 |  |  | $ | | — |  | $ | 898,178 |  |  |
| Intersegment sales | |  | 257 |  |  |  |  | 416 |  |  |  |  | 673 |  |  |  |  | (673) |  |  | — |  |  |
| Segment operating income | |  | 67,845 |  |  |  |  | 37,229 |  |  |  |  | 105,074 |  |  |  |  | (32,912) |  |  | 72,162 |  |  |
|  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2022** | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | |  |  | **Eliminations and** | | |  |  |  |  |
|  |  |  | **FPD** | | | |  | **FCD** | |  |  |  | **Reportable** | |  |  | **Consolidated Total** | | |  |
| (Amounts in thousands) | |  |  |  |  |  | **Segments** | |  |  |  | **All Other** | |  |
| Sales to external customers |  | $ | 1,188,412 |  |  |  | $ | 514,868 |  |  | $ | | 1,703,280 |  | 0 |  | $ | — |  | $ | 1,703,280 |  |  |
| Intersegment sales | |  | 2,043 |  |  |  |  | 1,393 |  |  |  |  | 3,436 |  |  |  |  | (3,436) |  |  | — |  |  |
| Segment operating income | |  | 78,347 |  |  |  |  | 45,606 |  |  |  |  | 123,953 |  |  |  |  | (56,253) |  |  | 67,700 |  |  |
|  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2021** | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | |  |  | **Eliminations and** | | |  |  |  |  |
|  |  |  | **FPD** | | | |  | **FCD** | |  |  |  | **Reportable** | |  |  | **Consolidated Total** | | |  |
|  |  |  |  |  |  |  | **Segments** | |  |  |  | **All Other** | |  |
| Sales to external customers |  | $ | 1,219,600 |  |  |  | $ | 535,886 |  |  | $ | | 1,755,486 |  | 0 |  | $ | — |  | $ | 1,755,486 |  |  |
| Intersegment sales | |  | 733 |  |  |  |  | 1,096 |  |  |  |  | 1,829 |  |  |  |  | (1,829) |  |  | — |  |  |
| Segment operating income | |  | 121,627 |  |  |  |  | 61,942 |  |  |  |  | 183,569 |  |  |  |  | (55,304) |  |  | 128,265 |  |  |
|  |  |  |  |  |  |  |  | 18 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



Table of Contents

1. **Accumulated Other Comprehensive Income (Loss)**

The following table presents the changes in AOCL, net of tax for the three months ended June 30, 2022 and 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **2022** |  |  |  |  |  |  |  |  |  |  |  | **2021** | |  |  |  |  |  |  |
|  |  | **Foreign** | | **Pension and** | | | **Cash flow** | | |  |  |  |  | **Foreign** | | **Pension and** | | | **Cash flow** | | |  |  |  |
|  |  | **currency** | |  | **other post-** | |  | **hedging** | |  |  |  |  | **currency** | |  | **other post-** | |  |  |  |
| (Amounts in thousands) |  | **translation** | |  | **retirement** | |  | **activity** | |  | **Total** | |  | **translation** | |  | **retirement** | |  | **hedging** | |  | **Total** |  |
|  | **items(1)** | |  | **effects** | |  | **(2)** |  |  |  | **items(1)** | |  | **effects** | | **activity (2)** | | |  |  |
| Balance - April 1 | $ | (472,769) |  | $ | (98,078) |  | $ | (1,307) |  | $ | (572,154) |  | $ | (467,326) |  | $ | (142,464) |  | $ | (286) |  | $ | (610,076) |  |
| Other comprehensive |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| income (loss) before |  | (64,160) |  |  | 5,415 |  |  | — | |  | (58,745) |  |  | 13,998 |  |  | (713) |  |  | — | |  | 13,285 |  |
| reclassifications (3) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amounts reclassified from |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| AOCL |  | — | |  | 1,155 |  |  | 29 |  |  | 1,184 |  |  | — | |  | 2,772 |  |  | 15 |  |  | 2,787 |  |
| Net current-period other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| comprehensive income |  | (64,160) |  |  | 6,570 |  |  | 29 |  |  | (57,561) |  |  | 13,998 |  |  | 2,059 |  |  | 15 |  |  | 16,072 |  |
| (loss) (3) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance - June 30 | $ | (536,929) |  | $ | (91,508) |  | $ | (1,278) |  | $ | (629,715) |  | $ | (453,328) |  | $ | (140,405) |  | $ | (271) |  | $ | (594,004) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Includes foreign currency translation adjustments attributable to noncontrolling interests of $5.9 million and $6.1 million at April 1, 2022 and 2021, respectively, and $5.9 million and $6.1 million at June 30, 2022 and 2021, respectively. Also includes the impacts from the changes in fair value of our cross-currency swaps, which were $26.5 million and $10.0 million for the three months ended June 30, 2022 and 2021, respectively.
2. Other comprehensive loss before reclassifications and amounts reclassified from AOCL to interest expense related to designated cash flow hedges.
3. Amounts in parentheses indicate an increase to AOCL.

The following table presents the reclassifications out of AOCL:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30,** | | | |
| (Amounts in thousands) | | **Affected line item in the statement of income** | |  | **2022(1)** |  |  | **2021(1)** |
| Pension and other postretirement effects |  |  |  |  |  |  |  |  |
| Amortization of actuarial losses(2) | | Other income (expense), net | | $ | (1,468) |  | $ | (3,089) |
| Prior service costs(2) | | Other income (expense), net | |  | (144) |  |  | (155) |
|  |  | Tax benefit | |  | 457 |  |  | 472 |
|  |  | Net of tax | | $ | (1,155) |  | $ | (2,772) |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Cash flow hedging activity | |  |  |  |  |  |  |  |
| Amortization of Treasury rate lock | | Interest expense | | $ | (38) |  | $ | (20) |
|  |  | Tax benefit | |  | 9 |  |  | 5 |
|  |  | Net of tax | | $ | (29) |  | $ | (15) |
|  |  |  |  |  |  |  |  |  |

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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.

19



Table of Contents

The following table presents the changes in AOCL, net of tax for the six months ended June 30, 2022 and 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **2022** |  |  |  |  |  |  |  |  |  |  |  | **2021** | |  |  |  |  |  |  |
|  |  | **Foreign** | | **Pension and** | | | **Cash flow** | | |  |  |  |  | **Foreign** | | **Pension and** | | | **Cash flow** | | |  |  |  |
|  |  | **currency** | |  | **other post-** | |  | **hedging** | |  |  |  |  | **currency** | |  | **other post-** | |  |  |  |
|  |  | **translation** | |  | **retirement** | |  | **activity** | |  | **Total** | |  | **translation** | |  | **retirement** | |  | **hedging** | |  | **Total** |  |
| (Amounts in thousands) |  | **items(1)** | |  | **effects** | |  | **(2)** |  |  |  | **items(1)** | |  | **effects** | | **activity (2)** | | |  |  |
| Balance - January 1 | $ | (456,025) |  | $ | (101,665) |  | $ | (1,336) |  | $ | (559,026) |  | $ | (456,437) |  | $ | (146,723) |  | $ | (488) |  | $ | (603,648) |  |
| Other comprehensive |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| income (loss) before |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| reclassifications (3) |  | (80,904) |  |  | 7,373 |  |  | — | |  | (73,531) |  |  | 3,109 |  |  | 804 |  |  | — | |  | 3,913 |  |
| Amounts reclassified from |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| AOCL |  | — | |  | 2,784 |  |  | 58 |  |  | 2,842 |  |  | — | |  | 5,514 |  |  | 217 |  |  | 5,731 |  |
| Net current-period other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (loss) (3) |  | (80,904) |  |  | 10,157 |  |  | 58 |  |  | (70,689) |  |  | 3,109 |  |  | 6,318 |  |  | 217 |  |  | 9,644 |  |
| Balance - June 30 | $ | (536,929) |  | $ | (91,508) |  | $ | (1,278) |  | $ | (629,715) |  | $ | (453,328) |  | $ | (140,405) |  | $ | (271) |  | $ | (594,004) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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1. Includes foreign currency translation adjustments attributable to noncontrolling interests of $4.6 million and $5.9 million at January 1, 2022 and 2021, respectively, and $5.9 million and $6.1 million at June 30, 2022 and 2021, respectively. Also includes the impacts from the changes in fair value of our cross-currency swaps, which were $35.1 million and $9.8 million for the six months ended June 30, 2022 and 2021, respectively.
2. Other comprehensive loss before reclassifications and amounts reclassified from AOCL to interest expense related to designated cash flow hedges.
3. Amounts in parentheses indicate an increase to AOCL.

The following table presents the reclassifications out of AOCL:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30,** | | | |
| (Amounts in thousands) | | **Affected line item in the statement of income** | |  | **2022(1)** |  |  | **2021(1)** |
| Pension and other postretirement effects |  |  |  |  |  |  |  |  |
| Amortization of actuarial losses(2) | | Other income (expense), net | | $ | (3,200) |  | $ | (6,148) |
| Prior service costs(2) | | Other income (expense), net | |  | (295) |  |  | (308) |
|  |  | Tax benefit | |  | 711 |  |  | 942 |
|  |  | Net of tax | | $ | (2,784) |  | $ | (5,514) |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Cash flow hedging activity | |  |  |  |  |  |  |  |
| Amortization of Treasury rate lock | | Interest expense | | $ | (76) |  | $ | (284) |
|  |  | Tax benefit | |  | 18 |  |  | 67 |
|  |  | Net of tax | | $ | (58) |  | $ | (217) |
|  |  |  |  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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.

20



Table of Contents

**16. Realignment Programs**

In the second quarter of 2020, we identified and initiated certain realignment activities 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 ("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 consolidated statements of income. We anticipate a total investment in these activities of approximately $95 million and the vast majority of the charges were incurred in 2020 and 2021 with the remainder to be incurred in 2022. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized and therefore are not included in the above anticipated total investment.

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, incurred related to our Realignment Program:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30, 2022** | | | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | |  |  |  |  | **Consolidated** |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | | **All Other** |  |  |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  |  |  | **Total** |  |
| **Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 604 |  | $ | 76 |  | $ | 680 |  | $ | — | | $ | 680 |  |
| SG&A |  | — | |  | — | |  | — | |  | — | |  | — |  |
|  | $ | 604 |  | $ | 76 |  | $ | 680 |  | $ | — |  | $ | 680 |  |
| **Non-Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | (225) |  | $ | 12 |  | $ | (213) |  | $ | — | | $ | (213) |  |
| SG&A |  | 2 |  |  | 33 |  |  | 35 |  |  | 27 |  |  | 62 |  |
|  | $ | (223) |  | $ | 45 |  | $ | (178) |  | $ | 27 |  | $ | (151) |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COS** | $ | 379 |  | $ | 88 |  | $ | 467 |  | $ | — | | $ | 467 |  |
| **SG&A** |  | 2 |  |  | 33 |  |  | 35 |  |  | 27 |  |  | 62 |  |
| **Total** | $ | 381 |  | $ | 121 |  | $ | 502 |  | $ | 27 |  | $ | 529 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

21



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2021** | | | | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | | |  |  |  |  |  |  |  | **Consolidated** | | |  |
|  |  |  | **FPD** | | |  |  | **FCD** | | |  |  | **Reportable** | | |  |  | **All Other** | | |  |  |  |
| (Amounts in thousands) |  |  |  |  |  |  | **Segments** | | |  |  |  |  | **Total** | | |  |
| **Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | | 2,016 |  |  | $ | | 171 |  |  | $ | | 2,187 |  |  | $ | | — | | | $ | | 2,187 |  |  |  |
| SG&A |  |  | 667 |  |  |  |  | — | | |  |  | 667 |  |  |  |  | — | | |  |  | 667 |  |  |  |
|  | $ | | 2,683 |  |  | $ | | 171 |  |  | $ | | 2,854 |  |  | $ | | — |  |  | $ | | 2,854 |  |  |  |
| **Non-Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | | 1,558 |  |  | $ | | 80 |  |  | $ | | 1,638 |  |  | $ | | — | | | $ | | 1,638 |  |  |  |
| SG&A |  |  | 338 |  |  |  |  | (129) |  |  |  |  | 209 |  |  |  |  | 915 |  |  |  |  | 1,124 |  |  |  |
|  | $ | | 1,896 |  |  | $ | | (49) |  |  | $ | | 1,847 |  |  | $ | | 915 |  |  | $ | | 2,762 |  |  |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COS** | $ | | 3,574 |  |  | $ | | 251 |  |  | $ | | 3,825 |  |  | $ | | — | | | $ | | 3,825 |  |  |  |
| **SG&A** |  |  | 1,005 |  |  |  |  | (129) |  |  |  |  | 876 |  |  |  |  | 915 |  |  |  |  | 1,791 |  |  |  |
| **Total** | $ | | 4,579 |  |  | $ | | 122 |  |  | $ | | 4,701 |  |  | $ | | 915 |  |  | $ | | 5,616 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2022** | | | | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal–** | | |  |  |  |  |  |  |  | **Consolidated** | | |  |
|  |  |  | **FPD** | | |  |  | **FCD** | | |  |  | **Reportable** | | |  |  | **All Other** | | |  |  |  |
| (Amounts in thousands) |  |  |  |  |  |  | **Segments** | | |  |  |  |  | **Total** | | |  |
| **Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | | 885 |  |  | $ | | 71 |  |  | $ | | 956 | |  | $ | | — | | | $ | | 956 | |  |  |
| SG&A |  |  | — | | |  |  | — | | |  |  | — | | |  |  | — | | |  |  | — | |  |  |
|  |  | $ | 885 |  |  |  | $ | 71 |  |  |  | $ | 956 | |  |  | $ | — | |  |  | $ | 956 | |  |  |
| **Non-Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | | (589) | |  | $ | | (37) | |  | $ | | (626) | |  | $ | | (61) | |  | $ | | (687) | |  |  |
| SG&A |  |  | 77 |  |  |  |  | 50 |  |  |  |  | 127 | |  |  |  | (266) | |  |  |  | (139) | |  |  |
|  |  | $ | (512) | |  |  | $ | 13 |  |  |  | $ | (499) | |  |  | $ | (327) | |  |  | $ | (826) | |  |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COS** | $ | | 296 |  |  | $ | | 34 |  |  | $ | | 330 | |  | $ | | (61) | |  | $ | | 269 | |  |  |
| **SG&A** |  |  | 77 |  |  |  |  | 50 |  |  |  |  | 127 | |  |  |  | (266) | |  |  |  | (139) | |  |  |
| **Total** |  | $ | 373 |  |  |  | $ | 84 |  |  |  | $ | 457 | |  |  | $ | (327) | |  |  | $ | 130 | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | 22 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Six Months Ended June 30, 2021** | | | | | | | |  |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | |  |  |  |  | **Consolidated** | |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  | **All Other** | |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  |  | **Total** | |  |
| **Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 6,043 |  | $ | 470 |  | $ | 6,513 |  | $ | — | | $ | 6,513 |  |  |
| SG&A |  | 667 |  |  | (9) |  |  | 658 |  |  | — | |  | 658 |  |  |
|  | $ | 6,710 |  | $ | 461 |  | $ | 7,171 |  | $ | — |  | $ | 7,171 |  |  |
| **Non-Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 5,449 |  | $ | 678 |  | $ | 6,127 |  | $ | 590 |  | $ | 6,717 |  |  |
| SG&A |  | 495 |  |  | 739 |  |  | 1,234 |  |  | 4,195 |  |  | 5,429 |  |  |
|  | $ | 5,944 |  | $ | 1,417 |  | $ | 7,361 |  | $ | 4,785 |  | $ | 12,146 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COS** | $ | 11,492 |  | $ | 1,148 |  | $ | 12,640 |  | $ | 590 |  | $ | 13,230 |  |  |
| **SG&A** |  | 1,162 |  |  | 730 |  |  | 1,892 |  |  | 4,195 |  |  | 6,087 |  |  |
| **Total** | $ | 12,654 |  | $ | 1,878 |  | $ | 14,532 |  | $ | 4,785 |  | $ | 19,317 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 23 |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



Table of Contents

The following is a summary of total inception to date charges, net of adjustments, related to the Realignment Program:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Inception to Date** | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | |  |  |  |  | **Consolidated** |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  | **All Other** | |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  |  | **Total** |  |
| **Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 26,761 |  | $ | 2,107 |  | $ | 28,868 |  | $ | — | | $ | 28,868 |  |
| SG&A |  | 716 |  |  | 333 |  |  | 1,049 |  |  | (17) |  |  | 1,032 |  |
|  | $ | 27,477 |  | $ | 2,440 |  | $ | 29,917 |  | $ | (17) |  | $ | 29,900 |  |
| **Non-Restructuring Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 24,818 |  | $ | 686 |  | $ | 25,504 |  | $ | 581 |  | $ | 26,085 |  |
| SG&A |  | 11,126 |  |  | 5,312 |  |  | 16,438 |  |  | 21,529 |  |  | 37,967 |  |
|  | $ | 35,944 |  | $ | 5,998 |  | $ | 41,942 |  | $ | 22,110 |  | $ | 64,052 |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COS** | $ | 51,579 |  | $ | 2,793 |  | $ | 54,372 |  | $ | 581 |  | $ | 54,953 |  |
| **SG&A** |  | 11,842 |  |  | 5,645 |  |  | 17,487 |  |  | 21,512 |  |  | 38,999 |  |
| **Total** | $ | 63,421 |  | $ | 8,438 |  | $ | 71,859 |  | $ | 22,093 |  | $ | 93,952 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 related to our Realignment Program:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended June 30, 2022** | | | | | | |  |  |  |  |  |
|  | **Severance** |  |  | **Contract** |  |  |  | **Asset Write-** | |  | **Other** | |  | **Total** |  |
| (Amounts in thousands) |  |  | **Termination** |  |  |  | **Downs** | |  |  |  |
| COS | $ | 570 |  | $ | — |  | $ | 19 |  | $ | 91 |  | $ | 680 |  |
| SG&A |  | — | |  | — | |  | — | |  | — | |  | — |  |
| Total | $ | 570 |  | $ | — |  | $ | 19 |  | $ | 91 |  | $ | 680 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended June 30, 2021** | | | | | | |  |  |  |  |  |
|  |  | **Severance** | | **Contract** |  |  |  | **Asset Write-** | |  | **Other** | |  | **Total** |  |
| (Amounts in thousands) |  | **Termination** |  |  |  | **Downs** | |  |  |  |
| COS | $ | (154) |  | $ | — |  | $ | (849) |  | $ | 3,190 |  | $ | 2,187 |  |
| SG&A |  | 168 |  |  | — | |  | — | |  | 499 |  |  | 667 |  |
| Total | $ | 14 |  | $ | — |  | $ | (849) |  | $ | 3,689 |  | $ | 2,854 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30, 2022** | | | | | |  |  |  |  |  |
|  |  | **Severance** | |  | **Contract** | |  | **Asset Write-** | |  | **Other** | |  | **Total** |  |
| (Amounts in thousands) |  |  | **Termination** | |  | **Downs** | |  |  |  |
| COS | $ | 568 |  | $ | — |  | $ | 259 |  | $ | 129 |  | $ | 956 |  |
| SG&A |  | — | |  | — | |  | — | |  | — | |  | — |  |
| Total | $ | 568 |  | $ | — |  | $ | 259 |  | $ | 129 |  | $ | 956 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 24 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | **Six Months Ended June 30, 2021** | | | | | | |  |  |  |  |  |
|  |  | **Severance** | | **Contract** |  |  |  | **Asset Write-** | |  | **Other** | |  | **Total** |  |
| (Amounts in thousands) |  | **Termination** |  |  |  | **Downs** | |  |  |  |
| COS | $ | 1,219 |  | $ | — |  | $ | 1,341 |  | $ | 3,953 |  | $ | 6,513 |  |
| SG&A |  | 168 |  |  | — | |  | — | |  | 490 |  |  | 658 |  |
| Total | $ | 1,387 |  | $ | — |  | $ | 1,341 |  | $ | 4,443 |  | $ | 7,171 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The following is a summary of total inception to date restructuring charges, net of adjustments, related to our Realignment Program:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Inception to Date** | | |  |  |  |  |  |  |
|  |  | **Severance** | | **Contract** |  |  |  | **Asset Write-** | |  | **Other** | |  | **Total** |  |
| (Amounts in thousands) |  | **Termination** |  |  |  | **Downs** | |  |  |  |
| COS | $ | 16,772 |  | $ | 86 |  | $ | 4,354 |  | $ | 7,656 |  | $ | 28,868 |  |
| SG&A |  | 251 |  |  | — | |  | 14 |  |  | 767 |  |  | 1,032 |  |
| **Total** | $ | 17,023 |  | $ | 86 |  | $ | 4,368 |  | $ | 8,423 |  | $ | 29,900 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The following represents the activity, primarily severance charges from reductions in force, related to the restructuring reserves for the six months ended

June 30, 2022 and 2021:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (Amounts in thousands) |  | **2022** |  |  | **2021** |
| Balance at January 1 | $ | 4,868 |  | $ | 18,255 |
| Charges, net of adjustments |  | 696 |  |  | 5,830 |
| Cash expenditures |  | (2,082) |  |  | (14,388) |
| Other non-cash adjustments, including currency |  | (310) |  |  | (461) |
| Balance at June 30 | $ | 3,172 |  | $ | 9,236 |
|  |  |  |  |  |  |

**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 2021 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 15,000 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 relied upon to maximize operating time of many key industrial processes. We continue to invest significantly 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 151 QRCs located around the globe, provides a variety of service offerings for our

25



Table of Contents

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:

* FPD designs and manufactures custom, highly-engineered pumps, pre-configured industrial pumps, pump systems, mechanical seals, auxiliary systems and replacement parts and related services; and
* FCD designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products and related equipment.

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 Durametallic, 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 maintaining the local capability to sell, install and service our equipment in remote regions, it is equally imperative to continuously improve our global operations. Despite headwinds caused by the COVID-19 pandemic, we continue to enhance our global supply chain capabilities 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 improve the supply chain processes across our business segments and find areas of synergy and cost reduction, all along improving 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***

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. We continue to actively monitor the impacts of the COVID-19 pandemic on all aspects of our business and geographies.

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*

The health and safety of our associates, suppliers and customers around the world continues to be a priority as we navigate the COVID-19 pandemic, including recent spikes in cases of the virus and its variants in various geographies in which we operate. These recent spikes related to multiple Omicron variants have caused significant disruption in certain geographies where we operate, including in Europe and China, which contributed to the labor availability and other COVID-19 operational challenges faced during the first half of 2022. Our associates have continued to demonstrate strong resilience in adapting to continually evolving health and safety guidelines while addressing these challenging times and providing products and services to our customers.

At the beginning of the pandemic we implemented policies and practices to help protect our workforce so they can safely and effectively carry out their vital work, and we have continued to revise those policies and practices in light of guidance received from local and regional health authorities where appropriate.

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 all of our facilities generally remain open and operational, we continue to occasionally experience temporary shutdowns in specific

26



Table of Contents

geographies as a result of COVID-19 disruption, such as the recent government-mandated shutdowns in Shanghai, China. 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. Despite the increased challenges of labor availability in the first half of 2022, we continue to expect a decline of these adverse impacts as we navigate through the remainder of 2022.

*Customer Demand*

During the first six months of 2022, the ongoing effects of the COVID-19 pandemic in global markets has continued to adversely impact our customers, particularly in the oil and gas markets. As a result of the pandemic’s effect (among certain other effects) on oil prices during 2020, many of our large oil and gas customers reduced capital expenditures and budgets in 2020. To date, while spending for maintenance and repair projects and aftermarket services have returned to pre-pandemic levels over the past several quarters, project-based, oil and gas customer spending has yet to return to pre-pandemic levels despite some meaningful improvement in the first six months of 2022. In this regard, we saw an overall increase in bookings of 12.3% in the first six months of 2022 as compared to the same period in 2021. Despite the meaningful improvement in customer spending, during the first half of 2022 we continued to experience customer-driven delays in the witnessing and inspection necessary to take delivery of equipment, which we expect will continue as long as we and our customers continue to experience the supply chain and logistics headwinds described below under the heading "Supply Chain Impact."

While many of the repair and maintenance projects that were paused by our customers in 2020 as a result of the pandemic were completed in 2021, repair and maintenance delays continued in 2021 and the first half of 2022, that will ultimately need to be completed, the timing will largely depend on the duration of the COVID-19 pandemic and how the virus continues to spread in our customers’ various geographies, given the impact of the pandemic on demand, utilization and required maintenance. While we saw some recovery in oil and gas capital expenditure budgets in the first half of 2022, capital spending did not yet reach pre-pandemic levels. We continue to expect planned oil and gas capital spending to increase through the rest of 2022 but remain below pre-pandemic levels.

*Supply Chain Impact*

Since the onset of the pandemic, many of our suppliers have also experienced varying lengths of production and shipping delays related to the COVID-19 pandemic and its effects, some of which continue to exist in highly affected countries. Additionally, the global supply chain and logistics constraints that have been affecting global markets since the third quarter of 2021 have continued to cause additional headwinds through the first half of 2022. 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 and we expect they will continue as the COVID-19 pandemic and ongoing global supply chain and logistics headwinds continue.

*Operational Impacts*

We have 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 – Six months ended June 30, 2022 and 2021”), reductions in capital expenditures and continued cuts in other discretionary spending due to our response to the global macroeconomic effects of COVID-19, which partially offsets the continued costs and operational impacts of the safety protocols and procedures that we have implemented and sustained as described above under the heading "Health and Safety of Our Associates" and resulting inflationary pressures. We continue to evaluate additional cost savings measures in order to reduce the impact of the COVID-19 pandemic on our financial results.

We continually monitor and assess the spread of COVID-19 and known variants, including in areas that have seen recent increases in cases, and we will continue to adapt our operations to respond to the changing conditions as needed. During the first half of 2022, we continued to experience the same increased difficulty in maintaining staffing and productivity levels due to both a higher quarantine rate and a tighter labor market for new hiring as we experienced in the second half of 2021. As we

27



Table of Contents

continue to manage our business through this 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.

***Impact of Russia-Ukraine Conflict on our Business***

In response to the ongoing military conflict in Ukraine, several countries, including the United States, have imposed economic sanctions and export controls on certain industry sectors and parties in Russia. As a result of this conflict, including the aforementioned sanctions and overall instability in the region, in February 2022 we stopped accepting new orders in Russia and temporarily suspended fulfillment of existing orders. In March 2022, we made the decision to permanently cease all Company operations in Russia. We have commenced the necessary actions to cease operations of our Russian subsidiary, including taking steps to cancel existing contracts with customers, terminate our approximately 50 Russia-based employees and terminate other related contractual commitments, and currently expect this process to continue throughout 2022.

In 2021 our Russian subsidiary had approximately $14 million of sales with an additional $36 million of sales from certain of our other foreign subsidiaries into the Russian market. As of March 31, 2022, the net assets held on our Russian subsidiary's balance sheet were $2.7 million, including $7.1 million of cash, $3.6 million of accounts receivables, net, a $9.3 million net intercompany payable position and other immaterial amounts. In addition, certain of our other foreign subsidiaries had open contracts with Russian customers that were subsequently cancelled for which revenue had been previously recognized over time utilizing the percentage of completion ("POC") method. As a result of the above, in the first quarter of 2022 we recorded a $20.2 million pre-tax charge ($21.0 million after-tax) to reserve the asset positions of our Russian subsidiary (excluding cash) as of March 31, 2022, to record a contra-revenue for previously recognized revenue and estimated cancellation fees on open contracts that were previously accounted for under POC and subsequently canceled, to establish a reserve for the estimated cost to exit the operations of our Russian subsidiary and to record a reserve for our estimated financial exposure on contracts that have or are anticipated to be cancelled. We reevaluated our financial exposure as of June 30, 2022 and concluded that the reserve recorded as of March 31, 2022 is sufficient and no changes to material reserves were needed.

The following table presents the above impacts of the Russia pre-tax charge:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30, 2022** | | | | | |  |
| (Amounts in thousands) |  | **FPD** | |  | **FCD** | | **Consolidated Total** | |
| Sales | $ | (5,429) |  | $ | (2) |  | $ | (5,431) |
| Cost of sales |  | 3,510 |  |  | 1,112 |  |  | 4,622 |
| Gross loss |  | (8,939) |  |  | (1,114) |  |  | (10,053) |
| Selling, general and administrative expense |  | 9,111 |  |  | 1,082 |  |  | 10,193 |
| Operating loss | $ | (18,050) |  | $ | (2,196) |  | $ | (20,246) |
|  |  |  |  |  |  |  |  |  |

We continue to monitor the situation involving Russia and Ukraine and its impact on the rest of our global business. This includes the macroeconomic impact, including with respect to global supply chain issues and inflationary pressures. To date, these impacts have not been material to our business and we do not currently expect that any incremental impact in future quarters, including any financial impacts caused by our cancellation of customer contracts and ceasing of operations in Russia, will be material to the Company.

*2022 Outlook*

As the world continues to make progress against COVID-19 largely through increased vaccinations, we have seen an inflection in our served end-markets as commodity prices and mobility levels increase. With our increased backlog and improved market environment we expect to return to growth in 2022, however the combined effects of the supply chain, logistics and labor availability headwinds have continued into the first half of 2022. Further, we have not seen and do not expect to see an increase in cancellations from our backlog. We therefore expect to continue to deliver on our backlog during 2022, though with a slightly longer cycle time than originally expected.

As of June 30, 2022, we have cash and cash equivalents of $458.3 million and $277.1 million of borrowings available under our Senior Credit Facility. We do not currently anticipate, nor are we aware of, any significant market conditions or commitments that would change any of our conclusions of the liquidity currently available to us. Additionally, we expect that the costs savings measures planned and already in place will enable us to maintain adequate liquidity over the short-term (next 12 months) and long-term (beyond 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.

28



Table of Contents

**RESULTS OF OPERATIONS — Three and six months ended June 30, 2022 and 2021**

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 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 Realignment Program activities of approximately $95 million and the vast majority of the charges were incurred in 2020 and 2021 with the remainder to be incurred in 2022. There are certain other realignment activities that are currently being evaluated, but have not yet been finalized and therefore are not included in the above anticipated total investment.

**Realignment Activity**

The following tables present out realignment activity by segment related to our Realignment Program:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30, 2022** | | | | | | | |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | | **Eliminations and** | | |  | **Consolidated** |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  | **All Other** | |  | **Total** |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 379 |  | $ | 88 |  | $ | 467 |  | $ | — | | $ | 467 |  |
| SG&A |  | 2 |  |  | 33 |  |  | 35 |  |  | 27 |  |  | 62 |  |
| Total | $ | 381 |  | $ | 121 |  | $ | 502 |  | $ | 27 |  | $ | 529 |  |
|  |  |  |  |  |  |  |  | |  |  | |  |  |  |  |
|  |  |  |  |  | **Three Months Ended June 30, 2021** | | | | | | | |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | | **Eliminations and** | | |  | **Consolidated** |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  | **All Other** | |  | **Total** |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 3,574 |  | $ | 251 |  | $ | 3,825 |  | $ | — | | $ | 3,825 |  |
| SG&A |  | 1,005 |  | $ | (129) |  |  | 876 |  |  | 915 |  |  | 1,791 |  |
| Total | $ | 4,579 |  | $ | 122 |  | $ | 4,701 |  | $ | 915 |  | $ | 5,616 |  |
|  |  |  |  |  |  |  |  | |  |  | |  |  |  |  |
|  |  |  |  |  | **Six Months Ended June 30, 2022** | | | | | | | |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | | **Eliminations and** | | |  | **Consolidated** |  |
| (Amounts in thousands) |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  |  |
|  |  |  | **Segments** | |  | **All Other** | |  | **Total** |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 296 |  | $ | 34 |  | $ | 330 |  | $ | (61) |  | $ | 269 |  |
| SG&A |  | 77 |  |  | 50 |  |  | 127 |  |  | (266) |  |  | (139) |  |
| Total | $ | 373 |  | $ | 84 |  | $ | 457 |  | $ | (327) |  | $ | 130 |  |
|  |  |  |  |  |  |  |  | |  |  | |  |  |  |  |
|  |  |  |  |  | **Six Months Ended June 30, 2021** | | | | | | | |  |  |  |
|  |  |  |  |  |  |  |  | **Subtotal–** | | **Eliminations and** | | |  | **Consolidated** |  |
|  |  | **FPD** | |  | **FCD** | |  | **Reportable** | |  |  |
| (Amounts in thousands) |  |  |  | **Segments** | |  | **All Other** | |  | **Total** |  |
| **Total Realignment Charges** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| COS | $ | 11,492 |  | $ | 1,148 |  | $ | 12,640 |  | $ | 590 |  | $ | 13,230 |  |
| SG&A |  | 1,162 |  |  | 730 |  |  | 1,892 |  |  | 4,195 |  |  | 6,087 |  |
| Total | $ | 12,654 |  | $ | 1,878 |  | $ | 14,532 |  | $ | 4,785 |  | $ | 19,317 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 29 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



Table of Contents

|  |  |  |  |  |  |  |  |  |  |
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| **Consolidated Results** |  |  |  |  |  |  |  |  |  |
| **Bookings, Sales and Backlog** |  |  |  |  |  |  |  |  |  |
|  |  |  | **Three Months Ended June 30,** | | | | | |  |
| (Amounts in millions) |  |  | **2022** |  |  |  |  | **2021** |  |
| Bookings |  | $ | 1,044.0 |  |  |  | $ | 952.8 |  |
| Sales |  |  | 882.2 |  |  |  |  | 898.2 |  |
|  |  |  | **Six Months Ended June 30,** | | | | | |  |
| (Amounts in millions) |  |  | **2022** |  |  |  |  | **2021** |  |
| Bookings | $ | | 2,129.7 |  |  | $ | | 1,896.8 |  |
| Sales |  |  | 1,703.3 |  |  |  |  | 1,755.5 |  |

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, 2022 increased by $91.2 million, or 9.6%, as compared with the same period in 2021. The increase included negative currency effects of approximately $47 million. The increase was driven by increased customer orders in the oil and gas, chemical, general and the water management industries partially offset by decreased bookings in power generation industry. The increase in customer bookings was primarily driven by original equipment bookings.

Bookings for the six months ended June 30, 2022 increased by $232.9 million, or 12.3%, as compared with the same period in 2021. The increase included negative currency effects of approximately $73 million. The increase was driven by increased customer bookings in the and oil and gas, chemical, power generation and the water management industries. The increase in customer bookings was more heavily weighted towards original equipment bookings.

Sales for the three months ended June 30, 2022 decreased by $16.0 million, or 1.8%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $41 million. The decreased sales were driven by original equipment, with decreased sales into Europe, Asia Pacific and Latin America, partially offset by increased sales into North America, Africa and the Middle East. Net sales to international customers, including export sales from the U.S., were approximately 62% and 66% of total sales for the three months ended June 30, 2022 and 2021, respectively.

Sales for the six months ended June 30, 2022 decreased by $52.2 million, or 3.0%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $60 million. The decreased sales were driven by both original equipment and aftermarket, with decreased sales into Europe, Asia Pacific, Latin America and the Middle East, partially offset by increased sales into North America. Net sales to international customers, including export sales from the U.S., were approximately 62% and 67% of total sales for the three months ended June 30, 2022 and 2021, 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 $2,316.2 million at June 30, 2022 increased by $312.6 million, or 15.6%, as compared with December 31, 2021 and include the negative impact of $25.2 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $73 million. Approximately 37% and 38% of the backlog at June 30, 2022 and December 31, 2021, 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 $562 million, as discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gross Profit and Gross Profit Margin** |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Gross profit | $ | 249.8 |  | $ | 278.2 |
| Gross profit margin |  | 28.3 % |  |  | 31.0 % |

30



|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Gross profit | $ | 459.5 |  | $ | 529.1 |
| Gross profit margin |  | 27.0 % |  |  | 30.1 % |

Gross profit for the three months ended June 30, 2022 decreased by $28.4 million, or 10.2%, as compared with the same period in 2021. Gross profit margin for the three months ended June 30, 2022 of 28.3% decreased from 31.0% for the same period in 2021. The decrease in gross profit margin was primarily due to revenue recognized on lower margin original equipment orders, lower conversion of customer backlog to revenue and increased freight costs largely due to global supply chain and logistics constraints and under absorption of fixed manufacturing costs, partially offset by a mix shift to higher aftermarket sales and lower broad-based annual incentive compensation as compared to the same period in 2021. Aftermarket sales represented approximately 53% of total sales, as compared with approximately 52% of total sales for the same period in 2021.

Gross profit for the six months ended June 30, 2022 decreased by $69.6 million, or 13.2%, as compared with the same period in 2021. Gross profit margin for the six months ended June 30, 2022 of 27.0% decreased from 30.1% for the same period in 2021. The decrease in gross profit margin was primarily due to revenue recognized on lower margin original equipment orders, a $4.6 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, lower conversion of customer backlog to revenue and increased freight costs largely due to global supply chain and logistics constraints and under absorption of fixed manufacturing costs, partially offset by as mix shift to higher aftermarket sales and lower broad-based annual incentive compensation as compared to the same period in 2021. Aftermarket sales represented approximately 53% of total sales, as compared with approximately 52% of total sales for the same period in 2021.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Selling, General and Administrative Expense** |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| SG&A | $ | 194.6 |  | $ | 210.8 |
| SG&A as a percentage of sales |  | 22.1 % |  |  | 23.5 % |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| SG&A | $ | 400.8 |  | $ | 409.1 |
| SG&A as a percentage of sales |  | 23.5 % |  |  | 23.3 % |

SG&A for the three months ended June 30, 2022 decreased by $16.2 million, or 7.7%, as compared with the same period in 2021. Currency effects yielded a decrease of approximately $7 million. SG&A as a percentage of sales for the three months ended June 30, 2022 decreased 140 basis points primarily due to decreased costs related to our realignment actions and lower broad-based annual incentive compensation as compared with the same period in 2021.

SG&A for the six months ended June 30, 2022 decreased by $8.3 million, or 2.0%, as compared with the same period in 2021. Currency effects yielded a decrease of approximately $12 million. SG&A as a percentage of sales for the six months ended June 30, 2022 increased 20 basis points primarily due to a $10.2 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, partially offset by decreased costs related to our realignment actions and decreased broad-based annual incentive compensation as compared with the same period in 2021.

**Net Earnings from Affiliates**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | |
| (Amounts in millions) |  |  | **2022** |  |  | **2021** |  |
| Net earnings from affiliates |  | $ | 5.1 |  | $ | 2.9 |  |
|  | 31 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |



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| --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |
|  | **Six Months Ended June 30,** | | | |  |
| (Amounts in millions) | **2022** |  |  | **2021** |  |
| Net earnings from affiliates | $ | 9.0 |  | $ | 6.4 |

Net earnings from affiliates for the three months ended June 30, 2022 increased by $2.2 million, or 75.9%, as compared with the same period in 2021.

The increase was primarily a result of increased earnings of our FPD joint venture in South Korea.

Net earnings from affiliates for the six months ended June 30, 2022 increased by $2.6 million, or 40.6%, as compared with the same period in 2021. 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,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Operating income | $ | 60.3 |  | $ | 72.2 |
| Operating income as a percentage of sales |  | 6.8 % |  |  | 8.0 % |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Operating income | $ | 67.7 |  | $ | 128.3 |
| Operating income as a percentage of sales |  | 4.0 % |  |  | 7.3 % |

Operating income for the three months ended June 30, 2022 decreased by $11.9 million, or 16.5%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $3 million. The decrease was primarily a result of the $28.4 million decrease in gross profit, partially offset by the $16.2 million decrease in SG&A.

Operating income for the six months ended June 30, 2022 decreased by $60.6 million, or 47.2%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $2 million. The decrease was primarily a result of the $69.6 million decrease in gross profit, partially offset by the $8.3 million decrease in SG&A.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Interest Expense and Interest Income** |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |
| Interest expense | $ | (11.1) |  | $ | (14.3) |
| Interest income |  | 0.9 |  |  | 0.5 |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |
| Interest expense | $ | (21.8) |  | $ | (31.1) |
| Interest income |  | 1.8 |  |  | 1.1 |

Interest expense for the three months ended June 30, 2022 decreased $3.2 million, as compared with the same period in 2021, primarily due to lower effective interest rates on our outstanding debt as compared with the same period in 2021.

Interest expense for the six months ended June 30, 2022 decreased $9.3 million, as compared with the same period in 2021, primarily due to lower effective interest rates on our outstanding debt as compared with the same period in 2021.

**Loss on Extinguishment of Debt**

32



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| --- | --- | --- | --- | --- | --- |
| Table of Contents |  |  |  |  |  |
|  | **Six Months Ended June 30,** | | | |  |
| (Amounts in millions) | **2022** | **2021** | | |  |
| Loss on extinguishment of debt | $ | — |  | $ | (7.6) |

Loss on extinguishment of debt for the six months ended June 30, 2021 of $7.6 million resulted from the loss on early extinguishment of our 2022 Euro Senior Notes in the first quarter of 2021.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Other Income (Expense), Net** |  |  |  |  |  |
|  | **Three Months Ended June 30,** | | | |  |
| (Amounts in millions) | **2022** |  |  | **2021** |  |
| Other income (expense), net | $ | 7.6 |  | $ | (7.9) |
|  | **Six Months Ended June 30,** | | | |  |
| (Amounts in millions) | **2022** |  |  | **2021** |  |
| Other income (expense), net | $ | (0.5) |  | $ | (19.2) |

Other expense, net for the three months ended June 30, 2022 decreased $15.5 million as compared with the same period in 2021, due primarily to a $7.0 million increase in gains from transactions in currencies other than our sites' functional currencies and a $6.9 million decrease in losses arising from transactions on foreign exchange forward contracts. The net change was primarily due to the foreign currency exchange rate movements in the Hungarian forint, Brazilian real, Euro and Russian ruble in relation to the U.S. dollar during the three months ended June 30, 2022, as compared with the same period in 2021.

Other expense, net for the six months ended June 30, 2022 decreased $18.7 million as compared with the same period in 2021, due primarily to a $19.7 million decrease in losses from transactions in currencies other than our sites' functional currencies, partially offset by a $1.6 million decrease in gains arising from transactions on foreign exchange forward contracts. The net change was primarily due to the foreign currency exchange rate movements in the Canadian dollar, Hungarian forint, Euro and Russian ruble in relation to the U.S. dollar during the six months ended June 30, 2022, as compared with the same period in 2021.

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| --- | --- | --- | --- | --- | --- |
| **Income Taxes and Tax Rate** |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Provision for (benefit from) income taxes | $ | 11.6 |  | $ | 2.7 |
| Effective tax rate |  | 20.1 % |  |  | 5.4 % |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Provision for (benefit from) income taxes | $ | 14.8 |  | $ | 6.5 |
| Effective tax rate |  | 31.4 % |  |  | 9.1 % |

The effective tax rate of 20.1% for the three months ended June 30, 2022 increased from 5.4% for the same period in 2021. The effective tax rate varied from the U.S. federal statutory rate for the three months ended June 30, 2022 primarily due to the net impact of foreign operations, partially offset by BEAT. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

The effective tax rate of 31.4% for the six months ended June 30, 2022 increased from 9.1% for the same period in 2021. The effective tax rate varied from the U.S. federal statutory rate for the six months ended June 30, 2022 primarily due to the current and anticipated tax impact of the Russia-Ukraine conflict on our business, partially offset by the net impact of foreign operations. Refer to Note 13 to our condensed consolidated financial statements included in this Quarterly Report for further discussion.

33



Table of Contents

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| --- | --- | --- | --- | --- | --- |
| **Other Comprehensive Income (Loss)** |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |
| Other comprehensive income (loss) | $ | (57.6) |  | $ | 16.1 |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |
| Other comprehensive income (loss) | $ | (70.7) |  | $ | 9.6 |

Other comprehensive loss for the three months ended June 30, 2022 increased $73.6 million as compared to the same period in 2021. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound, Indian rupee and Chinese yuan versus the U.S. dollar during the three months ended June 30, 2022, as compared with the same period in 2021.

Other comprehensive loss for the six months ended June 30, 2022 increased $80.3 million as compared to the same period in 2021. The increased loss was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound, Indian rupee and Chinese yuan versus the U.S. dollar during the six months ended June 30, 2022, as compared with the same period in 2021.

**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, and auxiliary systems (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 35 manufacturing facilities worldwide, 10 of which are located in Europe, 11 in North America, eight in Asia and six in Latin America, and it operates 131 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | |
| (Amounts in millions, except percentages) |  |  | **2022** |  |  | **2021** |  |
| Bookings |  | $ | 717.8 |  | $ | 668.8 |  |
| Sales |  |  | 614.9 |  |  | 617.5 |  |
| Gross profit |  |  | 184.0 |  |  | 196.4 |  |
| Gross profit margin |  |  | 29.9 % |  |  | 31.8 % |  |
| SG&A |  |  | 131.7 |  |  | 133.6 |  |
| Gain on sale of business |  |  | — | |  | 1.8 |  |
| Segment operating income |  |  | 57.3 |  |  | 67.8 |  |
| Segment operating income as a percentage of sales |  |  | 9.3 % |  |  | 11.0 % |  |
|  | 34 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |



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| Table of Contents |  |  |  |  |  |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Bookings | $ | 1,513.0 |  | $ | 1,322.2 |
| Sales |  | 1,190.5 |  |  | 1,220.1 |
| Gross profit |  | 340.9 |  |  | 379.2 |
| Gross profit margin |  | 28.6 % |  |  | 31.1 % |
| SG&A |  | 271.5 |  |  | 266.2 |
| Gain on sale of business |  | — | |  | 1.8 |
| Segment operating income |  | 78.3 |  |  | 121.6 |
| Segment operating income as a percentage of sales |  | 6.6 % |  |  | 10.0 % |

Bookings for the three months ended June 30, 2022 increased by $49.0 million, or 7.3%, as compared with the same period in 2021. The increase included negative currency effects of approximately $34 million. The increase in customer bookings was driven by increased customer orders in the chemical, general, power generation and water management industries, partially offset by decreased customer orders in the oil and gas industries. Customer bookings increased $62.1 million into North America, $17.6 million into Asia Pacific and $7.6 million into Africa and were partially offset by decreased customer orders of $25.6 million into the Middle East, $7.0 million into Europe and $5.3 million into Latin America. The increase was more heavily weighted towards original equipment bookings.

Bookings for the six months ended June 30, 2022 increased by $190.8 million, or 14.4%, as compared with the same period in 2021. The increase included negative currency effects of approximately $52.9 million. The increase in customer bookings was driven by increased customer orders in the oil and gas, power generation, chemical and water management industries, partially offset by decreased customer orders in the general industries. Customer bookings increased $86.1 million into North America, $26.4 million into the Middle East, $35.7 million into Asia Pacific, $68.1 million into Europe and $7.9 million into Africa and were partially offset by decreased customer orders of $14.7 million into Latin America. The increase was driven by both original equipment and aftermarket bookings.

Sales for the three months ended June 30, 2022 decreased by $2.6 million, or 0.4% as compared with the same period in 2021 and included negative currency effects of approximately $30 million. The decrease was driven by customer original equipment sales. Decreased customer sales of $21.9 million into Asia Pacific, $14.9 million into Europe and $4.0 million into Latin America were substantially offset by increased sales of $21.6 million into North America, $4.8 million into the Middle East and $10.3 million into Africa.

Sales for the six months ended June 30, 2022 decreased by $29.6 million, or 2.4% as compared with the same period in 2021 and included negative currency effects of approximately $44 million and $5.4 million of negative impact as a result of the reserve for our Russia exposure. The decrease was more heavily weighted by customer original equipment sales. Decreased customer sales of $45.3 million into Asia Pacific, $29.9 million into Europe and $0.8 million into the Middle East were partially offset by increased sales of $35.8 million into North America, $4.9 million into Africa and $1.4 million into Latin America.

Gross profit for the three months ended June 30, 2022 decreased by $12.4 million, or 6.3%, as compared with the same period in 2021. Gross profit margin for the three months ended June 30, 2022 of 29.9% decreased from 31.8% for the same period in 2021. The decrease in gross profit margin was primarily attributable to revenue recognized on lower margin original equipment orders, lower conversion of customer backlog to revenue and increased freight costs largely due to global supply chain and logistics constraints, partially offset by a mix shift to higher margin aftermarket, lower broad-based annual incentive compensation and decreased costs related to our realignment actions as compared to the same period in 2021.

Gross profit for the six months ended June 30, 2022 decreased by $38.3 million, or 10.1%, as compared with the same period in 2021. Gross profit margin for the six months ended June 30, 2022 of 28.6% decreased from 31.1% for the same period in 2021. The decrease in gross profit margin was primarily attributable to revenue recognized on lower margin original equipment orders, lower conversion of customer backlog to revenue and increased freight costs largely due to global supply chain and logistics constraints and a $3.5 million charge taken in the first quarter of 2022 related to our financial exposure in Russia, partially offset by a mix shift to higher margin aftermarket, lower broad-based annual incentive compensation and decreased costs related to our realignment actions as compared to the same period in 2021.

SG&A for the three months ended June 30, 2022 decreased by $1.9 million, or 1.4%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $5 million. The decrease in SG&A was primarily due to lower broad-based annual incentive compensation and decreased costs related to our realignment actions as compared to the same period in 2021.

35



Table of Contents

SG&A for the six months ended June 30, 2022 increased by $5.3 million, or 2.0%, as compared with the same period in 2021. Currency effects provided increase of approximately $8.6 million. The increase in SG&A was primarily due a $9.1 million charge taken in the first half of 2022 related to our financial exposure in Russia, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

Operating income for the three months ended June 30, 2022 decreased by $10.5 million, or 15.5%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $3 million. The decrease was primarily due to the $12.4 million decrease in gross profit, partially offset by the $1.9 million decrease in SG&A.

Operating income for the six months ended June 30, 2022 decreased by $43.3 million, or 35.6%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $2 million. The decrease was primarily due to the $38.3 million decrease in gross profit and the $5.3 million increase in SG&A.

Backlog of $1,619.8 million at June 30, 2022 increased by $250.9 million, or 18.3%, as compared with December 31, 2021 and include the negative impact of $19.0 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $21 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 and related equipment. 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 44 manufacturing facilities and QRCs in 22 countries around the world, with five of its 19 manufacturing operations located in the U.S., eight 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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Bookings | $ | 329.9 |  | $ | 289.1 |
| Sales |  | 268.4 |  |  | 281.2 |
| Gross profit |  | 80.3 |  |  | 84.8 |
| Gross profit margin |  | 29.9 % |  |  | 30.2 % |
| SG&A |  | 50.0 |  |  | 48.0 |
| Segment operating income |  | 30.4 |  |  | 37.2 |
| Segment operating income as a percentage of sales |  | 11.3 % |  |  | 13.2 % |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions, except percentages) |  | **2022** |  |  | **2021** |
| Bookings | $ | 624.2 |  | $ | 582.6 |
| Sales |  | 516.3 |  |  | 537.0 |
| Gross profit |  | 139.8 |  |  | 159.4 |
| Gross profit margin |  | 27.1 % |  |  | 29.7 % |
| SG&A |  | 94.2 |  |  | 97.8 |
| Segment operating income |  | 45.6 |  |  | 61.9 |
| Segment operating income as a percentage of sales |  | 8.8 % |  |  | 11.5 % |

Bookings for the three months ended June 30, 2022 increased by $40.8 million, or 14.1%, as compared with the same period in 2021. Bookings included negative currency effects of approximately $14 million. The increase in customer bookings was primarily driven by increased customer orders in the chemical, oil and gas, water management and general industries, partially offset by decreased customer orders in the power generation industry. Increased customer bookings were driven by increased orders of $11.8 million into North America, $14.8 million into Asia Pacific, $5.3 million into Africa, $3.5 million into Europe, $5.7 million into the Middle East and $0.8 million into Latin America. The increase was driven by customer original equipment bookings.

Bookings for the six months ended June 30, 2022 increased by $41.6 million, or 7.1%, as compared with the same period in 2021. Bookings included negative currency effects of approximately $20 million. The increase in customer bookings was primarily driven by increased customer orders in the chemical, oil and gas, water management and general industries, partially

36



Table of Contents

offset by decreased customer orders in the power generation industry. Increased customer orders of $18.5 million into North America, $12.1 million into Europe, $4.7 million into Africa, $7.5 million into the Middle East and $1.2 million into Latin America were partially offset by decreased customer orders of $0.3 million into Asia Pacific. The increase was primarily driven by customer original equipment bookings.

Sales for the three months ended June 30, 2022 decreased $12.8 million, or 4.6%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $11 million. Decreased sales were driven by original equipment sales. The decrease was primarily driven by decreased customer sales of $16.2 million into Asia Pacific, $1.7 million into Africa, $2.6 million into the Middle East, $9.5 million into Europe and $3.9 million into Latin America, partially offset by increased customer sales of $22.3 million into North America.

Sales for the six months ended June 30, 2022 decreased $20.7 million, or 3.9%, as compared with the same period in 2021. The decrease included negative currency effects of approximately $16 million. Decreased sales were driven by original equipment sales. The decrease was primarily driven by decreased customer sales of $27.3 million into Asia Pacific, $4.8 million into Africa, $6.0 million into the Middle East, $16.6 million into Europe and $5.2 million into Latin America, partially offset by increased customer sales of $39.4 million into North America.

Gross profit for the three months ended June 30, 2022 decreased by $4.5 million, or 5.3%, as compared with the same period in 2021. Gross profit margin for the three months ended June 30, 2022 of 29.9% decreased from the 30.2% for the same period in 2021. The decrease in gross profit margin was primarily attributable to lower conversion of customer backlog to revenue and increased freight costs largely due to global supply chain and logistics constraints, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

Gross profit for the six months ended June 30, 2022 decreased by $19.6 million, or 12.3%, as compared with the same period in 2021. Gross profit margin for the six months ended June 30, 2022 of 27.1% decreased from the 29.7% for the same period in 2021. The decrease in gross profit margin was primarily attributable to lower conversion of customer backlog to revenue, increased freight costs largely due to global supply chain and logistics constraints and a $1.1 million charge taken in the first half of 2022 related to our financial exposure in Russia, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

SG&A for the three months ended June 30, 2022 increased by $2.0 million, or 4.2%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $2 million. The increase in SG&A was primarily due to higher bad debt expense and a discrete asset write-down, partially offset by lower broad-based annual incentive compensation as compared to the same period in 2021.

SG&A for the six months ended June 30, 2022 decreased by $3.6 million, or 3.7%, as compared with the same period in 2021. Currency effects provided a decrease of approximately $3 million. The a decrease in SG&A was primarily due to lower broad-based annual incentive compensation, partially offset by a $1.1 million charge taken in the first quarter of 2022 related to our financial exposure in Russia as compared to the same period in 2021.

Operating income for the three months ended June 30, 2022 decreased by $6.8 million, or 18.3%, as compared with the same period in 2021. The decrease included negative currency effects of less than one million. The decrease was primarily due to the $4.5 million decrease in gross profit and the $2.0 million increase in SG&A.

Operating income for the six months ended June 30, 2022 decreased by $16.3 million, or 26.3%, as compared with the same period in 2021. The decrease included negative currency effects of less than one million. The decrease was primarily due to the $19.6 million decrease in gross profit, partially offset by the $3.6 million decrease in SG&A.

Backlog of $701.9 million at June 30, 2022 increased by $62.1 million, or 9.7%, as compared with December 31, 2021 and include the negative impact of $9.8 million of order cancellations in the first quarter of 2022 due to our exposure in Russia. Currency effects provided a decrease of approximately $52 million.

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| **LIQUIDITY AND CAPITAL RESOURCES** |  |  |  |  |  |
| ***Cash Flow and Liquidity Analysis*** |  |  |  |  |  |
|  |  | **Six Months Ended June 30,** | | | |
| (Amounts in millions) |  | **2022** |  |  | **2021** |
| Net cash flows provided (used) by operating activities | $ | (71.4) |  | $ | 61.3 |
| Net cash flows provided (used) by investing activities |  | (29.0) |  |  | (23.8) |
| Net cash flows provided (used) by financing activities |  | (77.7) |  |  | (491.1) |

Existing cash, cash generated by operations and borrowings available under the 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

37



Table of Contents

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, 2022 was $458.3 million as compared with $658.5 million at December 31, 2021.

Our cash balance decreased by $200.2 million to $458.3 million at June 30, 2022, as compared with December 31, 2021. The cash activity during the first six months of 2022 included cash used by operating activities, $52.3 million in dividend payments, $31.0 million in capital expenditures and $15.9 million of payments on our Term Loan.

For the six months ended June 30, 2022, our cash used by operating activities was $71.4 million, as compared to cash provided of $61.3 million for the same period in 2021. Cash flow provided from working capital decreased for the six months ended June 30, 2022, due primarily to increased cash flows used by or decreased cash flows provided by accounts receivable, inventory, contract assets, contract liabilities and accrued liabilities and income tax payable, partially offset by increased cash flows provided by or decreased cash flows used by accounts payable and retirement obligations and other liabilities as compared to the same period in 2021.

Increases in accounts receivable used $21.6 million of cash flow for the six months ended June 30, 2022, as compared to provided $14.3 million for the same period in 2021. As of June 30, 2022, our days’ sales outstanding ("DSO") was 75 days as compared with 73 days as of June 30, 2021.

Increases in contract assets used $7.7 million of cash flow for the six months ended June 30, 2022, as compared with cash flows provided of $12.2 million for the same period in 2021.

Increases in inventory used $96.7 million and $30.8 million of cash flow for the six months ended June 30, 2022 and June 30, 2021, respectively.

Inventory turns were 3.3 times at June 30, 2022, as compared to 3.6 as of June 30, 2021.

Increases in accounts payable provided $33.6 million of cash flow for the six months ended June 30, 2022, as compared with $41.1 million cash used for the same period in 2021. Decreases in accrued liabilities and income taxes payable used $65.8 million of cash flow for the six months ended June 30, 2022, as compared with $37.1 million for the same period in 2021. Cash used from accrued liabilities and income tax payable included a one-time tax payment of approximately $30 million associated with accrued withholding taxes related to foreign undistributed earnings for the six months ended June 30, 2022.

Increases in contract liabilities provided $9.6 million of cash flow for the six months ended June 30, 2022, as compared to cash flows provided of $17.0 million for the same period in 2021.

Cash flows used by investing activities during the six months ended June 30, 2022 were $29.0 million, as compared to $23.8 million for the same period in 2021. Capital expenditures during the six months ended June 30, 2022 were $31.0 million, an increase of $8.5 million as compared with the same period in 2021. Our capital expenditures are generally focused on strategic initiatives to pursue information technology infrastructure, ongoing scheduled replacements and upgrades and cost reduction opportunities. In 2022, we currently estimate capital expenditures to be between $60 million and $70 million before consideration of any acquisition activity. In addition, proceeds received during the six months ended June 30, 2022 from disposal of assets provided $0.2 million. Proceeds received during the six months ended June 30, 2021 from disposal of assets provided $2.1 million.

Cash flows used by financing activities during the six months ended June 30, 2022 were $77.7 million, as compared to $491.1 million for the same period in 2021. Cash outflows in the six months ended June 30, 2022 resulted primarily from the $15.9 million of payments on our Term Loan and $52.3 million of dividend payments. Cash outflows during the six months ended June 30, 2021 resulted primarily from a $407.5 million payment on long-term debt resulting from the redemption of our 2022 Euro Senior Notes, $52.2 million of dividend payments and the repurchase of $17.5 million of common shares.

Our Amended and Restated Credit Agreement matures in September 13, 2026. Approximately $18 million of our outstanding Term Loan Facility is due to mature in the remainder of 2022 and approximately $40 million in 2023. As of June 30, 2022, we had an available capacity of $277.1 million on our Senior Credit Facility, which provides for a $800.0 million unsecured revolving credit facility with a maturity date of September 13, 2026. 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, 2022 we made no cash contributions to our U.S. pension plan. At December 31, 2021 our U.S. pension plan was fully funded as defined by applicable law. After consideration of our funded status, we currently anticipate making $20 million in contributions to our U.S. pension plan in 2022, excluding direct benefits paid. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

38



Table of Contents

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 our short-term (next 12 months) and long-term (beyond the next 12 months) business needs. 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 "Financing" and "Cautionary Note Regarding Forward-Looking Statements" below.

As of June 30, 2022, we have $96.1 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 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, 2022.

As of June 30, 2022, we have cash and cash equivalents of $458.3 million and $277.1 million of borrowings available under our Senior Credit Facility. We do not currently anticipate, nor are we aware of, any significant market conditions or commitments that would change any of our conclusions of the liquidity currently available to us. Additionally, we expect that the costs savings measures planned and already in place will enable us to maintain adequate liquidity over the short-term (next 12 months) and long-term (beyond 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.

**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 2021 Annual Report. The critical policies, for which no significant changes have occurred in the six months ended June 30, 2022, include:

* Revenue Recognition;
* Deferred Taxes, Tax Valuation Allowances and Tax Reserves;
* Reserves for Contingent Loss;
* Pension 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 2021 Annual Report 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 forward 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.

**LIBOR**

On March 5, 2021, the UK Financial Conduct Authority (“FCA”), which regulates the London Interbank Offered Rate (“LIBOR”) issued an announcement on the future cessation or loss of representativeness of LIBOR benchmark settings currently published by ICE Benchmark Administration. That announcement confirmed that LIBOR will either cease to be provided by any administrator or will no longer be representative after December 31, 2021 for all non-USD LIBOR reference rates, and for 1-Week and 2-Month USD LIBOR and after June 30, 2023 for other USD LIBOR reference rates. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rate Committee, has proposed the replacement of U.S. dollar LIBOR rates with a new index calculated by short-term repurchase agreements backed by U.S. Treasury securities called the Secured Overnight Financing Rate (“SOFR”). Whether or not SOFR is generally accepted as the LIBOR replacement remains in question and the future of LIBOR at this time is uncertain. The Company’s Amended and Restated Credit Agreement includes a provision for the determination of a successor LIBOR rate when appropriate by reference to the then-prevailing market convention for determining an interest rate for syndicated loans in the United States, subject to a right of the lenders thereunder to reject the application of the determined rate by written notice. While we will work with our administrative agent to incorporate a successor reference rate, there can be no assurances as to what alternative reference rates may be and whether such rates will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR.

**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. As a means of managing the volatility of foreign currency exposure with the Euro/U.S. dollar exchange rate, we entered into three swap agreements associated with our Euro investment in certain of our international subsidiaries. The swap agreements are designated as a net investment hedges and as of June 30, 2022, the notional value of the swaps agreements was €423.2 million. Routinely, we review 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. For further discussion related to these swap agreements refer to Note 5 to our condensed consolidated financial statements included in this Quarterly Report. We recognized net gains (losses) associated with foreign currency translation of $(64.2) million and $14.0 million for the three months ended June 30, 2022 and 2021, respectively, and $(80.9) million and $3.1 million for the six months ended June 30, 2022 and 2021, 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 forward contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the foreign exchange forward contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure.

As of June 30, 2022, we had a U.S. dollar equivalent of $413.9 million in aggregate notional amount outstanding in foreign exchange forward contracts with third parties, as compared with $425.2 million at December 31, 2021. Transactional currency gains and losses arising from transactions outside of our sites’ functional currencies and changes in fair value of non-designated foreign exchange forward contracts are included in our consolidated results of operations. We recognized foreign currency net gains (losses) of $10.1 million and $(4.2) million for the three months ended June 30, 2022 and 2021, respectively, and $4.4 million and $(13.7) million for the six months ended June 30, 2022 and 2021, respectively, are included in other income (expense), net in the accompanying condensed consolidated statements of income.

Based on a sensitivity analysis at June 30, 2022, a 10% change in the foreign currency exchange rates for the six months ended June 30, 2022 would have impacted our net earnings by approximately $3 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 forward 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, 2022. 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, 2022.

**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, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

39



Table of Contents

**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 2021 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 2021 Annual Report and subsequent SEC filings. The risks described in this Quarterly Report filed for the period ended June 30, 2022, our 2021 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, 2022, we had no repurchases of our common stock shares. As of June 30, 2022, we have $96.1 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, 2022:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Maximum Number of** |  |
|  |  |  |  |  |  | **Total Number of** | | | **Shares (or** |  |
|  |  |  |  |  |  | **Approximate Dollar** |  |
|  | **Total Number of Shares** |  |  | **Average Price Paid per** | | **Shares Purchased as** | | | **Value) That May Yet** |  |
| **Period** |  |  | **Part of Publicly** | | | **Be Purchased Under** |  |
| **Purchased** |  |  | **Share** | | **Announced Program (1)** | | | **the Program (in millions** |  |
| April 1 - 30 | 264 | (2) | $ | 35.59 |  | — |  | $ | 96 |  |
| May 1 - 31 | 6,360 | (3) |  | 30.06 |  | — | | | 96 |  |
| June 1 - 30 | 332 | (2) |  | 29.12 |  | — | | | 96 |  |
| Total | 6,956 |  | $ | 30.23 |  | — |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. On November 13, 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.
2. Represents shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares.
3. Includes 5,440 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of $29.86 and 920 shares purchased at a price of $31.28 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.

40



Table of Contents

**Item 3.** **Defaults Upon Senior Securities.**

None

**Item 4.** **Mine Safety Disclosures.**

Not applicable.

**Item 5.** **Other Information.**

None

41



Table of Contents

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item 6.** | | | | **Exhibits** | | |
| Exhibit No. | | | |  |  | Description |
|  |  |  |  |  |  |  |
| [3.1](http://www.sec.gov/Archives/edgar/data/0000030625/000119312521172363/d188598dex31.htm) | |  |  |  |  | Restated Certificate of Incorporation of Flowserve Corporation, as amended and restated effective May 20, 2021 (incorporated by |
|  |  |  |  |  |  | reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on May 25, 2021). |
| [3.2](http://www.sec.gov/Archives/edgar/data/30625/000119312522148797/d346827dex31.htm) | |  |  |  |  | Flowserve Corporation By-Laws, as amended and restated effective May 12, 2022 (incorporated by reference to Exhibit 3.2 to the |
|  |  |  |  |  |  | Registrant’s Current Report on Form 8-K filed on May 12, 2022). |
| 10.1+ | | |  |  |  | Amendment to Performance Restricted Stock Unit Agreements under the Flowserve Corporation 2020 Long-Term Incentive Plan by and |
|  |  |  |  |  |  | between Flowserve Corporation and R. Scott Rowe dated April 19, 2022\*. |
| 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 |

1. The cover page from the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2022, 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.

42



Table of Contents

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 27, 2022 /s/ Amy B. Schwetz



Amy B. Schwetz

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: July 27, 2022 /s/ Scott K. Vopni



Scott K. Vopni

Vice President and Chief Accounting Officer

(Principal Accounting Officer)

43

**EXHIBIT 10.1**

**AMENDMENT TO**

**PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT**

**UNDER THE FLOWSERVE CORPORATION**

**2020 LONG-TERM INCENTIVE PLAN**

WHEREAS, on February 16, 2021, the Board of Directors (the “***Board***”) of Flowserve Corporation (the “***Company***”) awarded Robert Scott Rowe (the “***Participant***”) a performance-based restricted stock unit award (the “***2021 Performance Share Award***”) under the Flowserve Corporation 2020 Long-Term Incentive Plan (the “***Plan***”) pursuant to that certain Performance Restricted Stock Unit Agreement (the “***2021 Award Agreement***”);

WHEREAS, on February 15, 2022, the Board awarded the Participant an additional a performance-based restricted stock unit award (the “***2022*** ***Performance Share Award***” and together with the 2021 Performance Share Award, the “***Awards***”) under the Plan pursuant to that certain PerformanceRestricted Stock Unit Agreement (the “***2022 Award Agreement***” and together with the 2021 Award Agreement, the “***Award Agreements***”); and

WHEREAS, the Company and the Participant desire to amend the Award Agreements as set forth in this Amendment (this “***Amendment***”), in each case effective as of the original grant date for the applicable Award (the “***Effective Date***”) to clarify the settlement thereof.

NOW, THEREFORE, in consideration of the foregoing and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant agree as follows:

1. A new sentence is hereby added to Section 2(g) of the Award Agreement to read as follows:

For the avoidance of doubt, to the extent necessary to comply with Section 5.1 of the Plan as in effect on the Date of Grant, any portion of the vested Performance Shares and Dividend Equivalents that are earned and settled hereunder in excess of 200,000 shares of Common Stock (when combined with all other shares of Common Stock subject to Bonus Stock, Restricted Stock, Restricted Stock Units, or other Performance Awards granted under the Plan to the Participant in the calendar year in which the Date of Grant occurred) shall be settled in cash in accordance with this Section 2(g).

1. In all other respects the Award Agreement is hereby ratified and confirmed.
2. Capitalized terms used in this Amendment shall have the meanings ascribed to them in the Plan or the Award Agreement, as applicable.

The Company and the Participant hereby adopt and agree to the terms and conditions of this Amendment on the date set forth below, but effective as of the Effective Date.

FLOWSERVE CORPORATION

Date: April 19, 2022

/s/ David E. Roberts



David E. Roberts

Non-Executive Chairman of the Board

Date: April 19, 2022

/s/ R. Scott Rowe



R. Scott Rowe

President and Chief Executive Officer

**EXHIBIT 31.1**

**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, 2022 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:
   * 1. 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;
     2. 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;
     3. 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
     4. 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
   1. 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):
      1. 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
      2. 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 27, 2022

/s/ R. Scott Rowe



R. Scott Rowe

President and Chief Executive Officer

(Principal Executive Officer)

**EXHIBIT 31.2**

**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, 2022 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:
   1. 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;
   2. 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;
   3. 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
   4. 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):
   1. 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
   2. 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 27, 2022

/s/ Amy B. Schwetz



Amy B. Schwetz

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**EXHIBIT 32.1**

**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, 2022, 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 27, 2022

/s/ R. Scott Rowe



R. Scott Rowe

President and Chief Executive Officer

(Principal Executive Officer)

**EXHIBIT 32.2**

**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, 2022, 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 27, 2022

/s/ Amy B. Schwetz



Amy B. Schwetz

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)