AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 27, 2000

REGISTRATION STATEMENT NO. 333-

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

| | |
|---|---|
| NEW YORK<br>(State or other jurisdiction of incorporation or organization) | 3561<br>(Primary Standard Industrial Classification Code Number) |
| NEW YORK<br>(State or other jurisdiction of incorporation or organization) | 31-0267900<br>(I.R.S. Employer Identification No.) |

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

FLOWSERVE FINANCE B.V.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| THE NETHERLANDS<br>(State or other jurisdiction of incorporation or organization) | 3561<br>(Primary Standard Industrial Classification Code Number) |
| THE NETHERLANDS<br>(State or other jurisdiction of incorporation or organization) | NONE<br>(I.R.S. Employer Identification No.) |

PARALLELWEG 6
ETTEN-LEUR 4870AA
THE NETHERLANDS
011 3176 502 8200
(Address, including zip code, and telephone number, including area code, of Flowserve Finance B.V.'s principal executive offices)

CT CORPORATION SYSTEM
111 EIGHTH AVENUE
NEW YORK,NY 10011
(212) 894-8700
(Name, address, including zip code, and telephone number, including area code, of agent for process)

with copies to

CHRISTOPHER C. PACI, ESQ.
SHEARMAN & STERLING
599 LEXINGTON AVENUE

NEW YORK, N.Y. 10022
(212) 848-8515

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE | AMOUNT OF REGISTRATION FEE |
|---|---|---|---|---|
| 12 1/4% Senior Subordinated Notes due 2010 of Flowserve Corporation..... | $290,000,000 | 100% | $290,000,000 | $76,560(2) |
| 12 1/4% Senior Subordinated Notes due 2010 of Flowserve Finance B.V. ..... | E100,000,000 | 100% | $ 85,220,000(1) | $23,068(3) |

(1) Calculated based on the euro noon buying rate on September 25, 2000 of $0.8738 per E1.00.

(2) The registration fee was calculated pursuant to Rule 457(f)(2) under the Securities Act.

(3) The registration fee was calculated pursuant to Rule 457(f)(2) under the Securities Act based on the euro noon buying rate on September 25, 2000 of $0.8738 per E1.00.

THESE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.



FLOWSERVE CORPORATION
TABLE OF ADDITIONAL REGISTRANTS

| NAME | STATE OF INCORPORATION OR ORGANIZATION | PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER |
|---|---|---|
| Flowserve RED Corporation..... | Delaware | 3561 |
| Flowserve FSD Corporation..... | Delaware | 3561 |
| Flowserve FCD Corporation..... | Delaware | 3561 |
| Flowserve International, Inc. ..... | Delaware | 3561 |
| Flowserve Management Company..... | Delaware | 3561 |
| BW/IP-New Mexico, Inc. ..... | Delaware | 3561 |
| Flowserve International, LLC..... | Delaware | 3561 |
| Flowserve Holdings, Inc..... | Delaware | 3561 |
| Durametallic Australia Holding Company..... | Michigan | 3561 |
| Flowserve International Limited..... | United Kingdom | 3561 |
| Innovative Valve Technologies, Inc. ..... | Delaware | 3561 |
| Plant Maintenance, Inc. ..... | Delaware | 3561 |
| Varco Valve, Inc. ..... | Delaware | 3561 |

| | | |
|---|---|---|
| Colonial Equipment & Service Co., Inc. | Delaware | 3561 |
| CECORP, Inc. | Delaware | 3561 |
| DIVT Acquisition, LLC | Delaware | 3561 |
| DIVT Subsidiary, LLC | Delaware | 3561 |
| IPSCO Holding, Inc. | Delaware | 3561 |
| Southern Valve Service, Inc. | Alabama | 3561 |
| L.T. Koppl Industries, Inc. | California | 3561 |
| Koppl Company | California | 3561 |
| Koppl Industrial Systems, Inc. | California | 3561 |
| Harley Industries, Inc. | California | 3561 |
| Koppl Company of Arizona | Arizona | 3561 |
| Seeley & Jones, Incorporated | Connecticut | 3561 |
| GSV, Inc. | Florida | 3561 |
| IPSCO-Florida, Inc. | Florida | 3561 |
| International Piping Services Company | Illinois | 3561 |
| Cypress Industries, Inc. | Illinois | 3561 |
| DALCO, LLC | Kentucky | 3561 |
| Plant Specialties, Inc. | Louisiana | 3561 |
| Energy Maintenance, Inc. | Missouri | 3561 |
| Preventive Maintenance, Inc. | North Carolina | 3561 |
| Production Machine Incorporated | Oklahoma | 3561 |
| ICE Liquidating, Inc. | Pennsylvania | 3561 |
| Valve Repair of South Carolina, Inc. | South Carolina | 3561 |
| The Safe Seal Company, Inc. | Texas | 3561 |
| Flickinger-Benicia Inc. | Washington | 3561 |
| Puget Investments, Inc. | Washington | 3561 |
| Steam Supply & Rubber Co., Inc. | Washington | 3561 |
| Flickinger Company | Washington | 3561 |
| Boyden Inc. | West Virginia | 3561 |
| Valve Actuation & Repair Co. | West Virginia | 3561 |
| Ingersoll-Dresser Pump Company | Delaware | 3561 |
| IDP Alternate Energy Company | Delaware | 3561 |
| Energy Hydro, Inc. | Delaware | 3561 |
| Pump Investments, Inc. | Delaware | 3561 |

The address, including zip code, and telephone number, including area code, of the principal offices of the additional registrants listed above is: 222 W. Las Colinas Blvd., Suite 1500, Irving, Texas 75039; the telephone number at that address is (972) 443-6500.



Subject to completion dated September , 2000

PROSPECTUS

FLOWSERVE LOGO

OFFER TO EXCHANGE

any and all
12 1/4% Senior Subordinated Notes due August 15, 2010
($290,000,000 aggregate principal amount outstanding)
for
12 1/4% Senior Subordinated
Notes due August 15, 2010 of
FLOWSERVE CORPORATION

and
12 1/4% Senior Subordinated Notes due August 15, 2010
(E100,000,000 principal amount outstanding)
for
12 1/4% Senior Subordinated
Notes due August 15, 2010 of
FLOWSERVE FINANCE B.V.
Fully and Unconditionally Guaranteed on a Senior Subordinated Basis by

FLOWSERVE CORPORATION

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TERMS OF EXCHANGE OFFER

- Expires 12:00 p.m., New York time (5:00 p.m., London time) on , 2000, unless extended

- Not subject to any other condition other than that the Exchange Offer does not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission

- All outstanding notes that are validly tendered and not validly withdrawn will be exchanged

- Tenders of outstanding notes may be withdrawn by you any time prior to 12:00 p.m., New York time (5:00 p.m., London time), on the date of the expiration of the Exchange Offer

- The exchange of notes will not be a taxable exchange for U.S. federal income tax purposes

- We will not receive any proceeds from the Exchange Offer

- The terms of the exchange notes to be issued are substantially similar to the outstanding notes, except for transfer restrictions and registration rights relating to the outstanding notes

- We intend to list the exchange notes on the Luxembourg Stock Exchange

SEE "RISK FACTORS" BEGINNING ON PAGE 22 FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2000.



The Exchange Offer is not being made to, nor will we accept surrenders of or exchange from, holders of outstanding notes in any jurisdiction in which the Exchange Offer or the acceptance of outstanding notes would not be in compliance with the securities or blue sky laws of such jurisdiction.

No dealer, salesperson or other individual has been authorized to give any information or make any representation not contained in this prospectus in connection with the offering covered by this prospectus. If given or made, such information or representation must not be relied upon as having been authorized by us. This prospectus does not constitute an offer or a solicitation in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus, nor any distribution of securities made using this prospectus, shall under any circumstances create any implication that there has not been any change in the facts set forth in this prospectus or in our affairs since the date of this prospectus.

The securities may not be offered or sold in or into the United Kingdom except in circumstances that do not constitute an offer to the public within the meaning of the Public Offers of Securities Regulation 1995. All applicable provisions of the Financial Services Act 1986 must be complied with in respect of anything done in relation to securities in, from or otherwise involving the United Kingdom.

Exchange notes may only be offered in The Netherlands or elsewhere to persons who trade or invest in securities in the conduct of their profession or trade within the meaning of the Securities Transactions Supervision Act 1995 (Wet Toezicht Effectenverkeer 1995) and its implementing regulations (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors, and commercial enterprises which as an ancillary activity regularly invest in securities).





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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS PROSPECTUS MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS PROSPECTUS MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.



## SERVICE OF PROCESS AND ENFORCEABILITY OF CIVIL LIABILITIES

Flowserve Finance B.V. is a company formed under the laws of The Netherlands and substantially all of its assets are located outside the United States. In addition, certain future members of Flowserve Finance's management board are residents of countries other than the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against such persons or Flowserve Finance judgments of courts of the United States based upon civil liabilities under the United States federal securities laws. We have been advised by our Netherlands counsel, De Brauw Blackstone Westbroek N.V., that a judgment rendered by a court in the United States will not be recognized and enforced by the Netherlands courts. However, if a person has obtained a final and conclusive judgment for the payment of money rendered by a court in the United States which is enforceable in the United States and files his claim with the competent Netherlands court, the Netherlands court will generally give binding effect to such judgment insofar as it finds that the jurisdiction of the United States court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed and unless such judgment contravenes the public policy of The Netherlands.

There can be no assurance that United States investors will be able to enforce against Flowserve Finance, or members of the management board, or certain experts named herein who are residents of The Netherlands or other countries outside the United States, any judgments in civil and commercial matters, including judgments under the U.S. federal securities laws. In addition, there is doubt as to whether a Netherlands court would impose civil liability on Flowserve Finance or on the members of the management board in an original action predicated solely upon the federal securities laws of the United States brought in a court of competent jurisdiction in The Netherlands against Flowserve Finance or such members.

Flowserve Finance is a besloten vennootschap (private company with limited liability) with its corporate seat at Amsterdam, The Netherlands and its principal place of business at Parallelweg 6, Etten-Leur 4870 AA, The Netherlands. Its telephone number is 011-31-76-502-8200.

## INDUSTRY DATA

In this prospectus, we rely on and refer to information regarding the flow control products market and its segments and competitors from The Freedonia Group, Hydraulic Institute, Valve Manufacturers Association, Bloomberg, and Hydrocarbon Processing Magazine, market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.



## FORWARD-LOOKING STATEMENTS

This prospectus contains various forward-looking statements and includes assumptions about future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are:

- further changes in the already competitive environment for our products or competitors' responses to our strategies;
- our ability to integrate Ingersoll-Dresser Pump Company ("IDP") and Innovative Valve Technologies, Inc. ("Invatec") into our management and operations and realize anticipated synergies and cost savings;
- political risks or trade embargoes affecting important country markets;
- the health of the petroleum, chemical and power generation industries;
- economic conditions in areas outside the United States;
- continued economic growth within the United States; and
- the recognition of significant expenses associated with adjustments to realign our combined facilities and other capabilities with our strategic objectives and business conditions including, without limitation, expenses incurred in restructuring our operations to incorporate IDP's facilities and the cost of financing to acquire IDP.

We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.



## PROSPECTUS SUMMARY

The following is a summary of the more detailed information contained elsewhere in this prospectus. Except where otherwise indicated and unless the context otherwise requires, (i) the terms "we", "us", "our" and "our company" refer collectively to Flowserve Corporation and its subsidiaries giving effect to the acquisition of Innovative Valve Technologies, Inc. and Ingersoll-Dresser Pump Company and their respective subsidiaries; (ii) the terms "Flowserve", "Flowserve Finance", "Invatec" and "IDP" refer to Flowserve Corporation, Flowserve Finance B.V., Innovative Valve Technologies, Inc. and Ingersoll-Dresser Pump Company, respectively, and their respective subsidiaries, as stand-alone companies; (iii) the term "Transactions" refers to our acquisition of IDP, the financing provided under new senior credit facilities entered into on August 8, 2000 to finance the acquisition, refinance outstanding indebtedness and pay transaction fees and expenses, and the offering of the notes on August 8, 2000 and the application of the proceeds, all as described in this prospectus; and (iv) the term "1999" refers to the year ended December 31, 1999 on a pro forma basis giving effect to the Transactions and the acquisition of Invatec as though they had occurred on January 1, 1999. Flowserve Finance issued the euro notes. It is an indirect wholly owned subsidiary of Flowserve and was formed for the purpose of issuing and selling securities and making the proceeds of those issuances available to us.

## THE EXCHANGE OFFER

On August 8, 2000:

- we completed a private offering of $290,000,000 12 1/4% Senior Subordinated Notes due August 15, 2010, which are referred to in this prospectus as the outstanding dollar notes

and

- our wholly owned subsidiary, Flowserve Finance B.V., completed a private offering of E100,000,000 12 1/4% Senior Subordinated Notes due August 15, 2010, which are referred to in this prospectus as the outstanding euro notes, and we refer to the outstanding dollar notes and the outstanding euro notes collectively as the outstanding notes.

On the same day, Flowserve and Flowserve Finance each entered into a separate registration rights agreement relating to the outstanding dollar notes and the outstanding euro notes, respectively, with the initial purchasers in the private offering of these securities in which Flowserve and Flowserve Finance each agreed, among other things, to deliver to you this prospectus and to complete this exchange offer within 180 days of the issuance of the outstanding dollar notes and the outstanding euro notes. The outstanding dollar notes and the outstanding euro notes can now be tendered for exchange. You should read the discussion under the heading "Summary Description of the Notes" and "Description of the Notes" for further information regarding the registered notes. We refer to the registered notes to be issued in the exchange offer as the notes or the exchange notes.

We believe that the notes issued in the exchange offer may be resold by you under U.S. federal securities laws without compliance with the registration and prospectus delivery provisions of the Securities Act of 1933, subject to certain conditions. You should read the discussion under the headings "Summary of the Terms of Exchange Offer" and "The Exchange Offer" for further information regarding the exchange offer and resale of the notes.



## COMPANY

We are the largest manufacturer and aftermarket service provider of comprehensive flow control systems in the world. We have been in the flow control industry for over 125 years. We develop and manufacture precision-engineered flow control equipment for critical service applications where high reliability is required. The flow control system components we produce include pumps, valves and mechanical seals. Our products and services are used in several industries, including petroleum, chemical, power generation and water treatment. We believe that our product portfolio is the most comprehensive and our scope of operations is the most geographically diversified in the industry. In 1999, we generated revenue of $2.1 billion.

We sell our products and services to more than 1,000 companies including some of the world's leading engineering and construction firms, original equipment manufacturers ("OEMs"), distributors and end users. Our sales mix by industry in 1999 consisted of petroleum (39%), chemical (20%), power generation (14%), general industrial (14%), water treatment (6%) and other industries (7%). Some of our top customers include Asea Brown Boveri, Atlantic Richfield ("ARCO"), BASF, Bayer, Bechtel, BP Amoco, Dow Chemical, Duke Energy, DuPont, Eastman Chemical, ExxonMobil, Royal Dutch/Shell, Saudi Aramco, Texaco, TotalFinaElf, and the United States Navy. No single customer accounted for more than 3% of our total revenues in 1999. Our revenues by geographic region in 1999 consisted of North America (55%), Europe and the Middle East (28%), Latin America (9%) and Asia (8%). We have pursued a strategy of geographic diversity to mitigate the impact of an economic downturn in any one part of the world on our business.

We believe we have an installed base of approximately 1,100,000 pumps worldwide, which we believe is the most extensive installed base of industrial pumps in the industry. A large installed equipment base is critical to securing future revenues as industry analysts suggest that approximately 86% of the total life-cycle cost of a pump consists of aftermarket products and services, such as replacement parts, mechanical seals and maintenance. When outsourced, a majority of replacement part orders and aftermarket service business is typically awarded to the original equipment manufacturer. Aftermarket parts and services have

provided us with a steady source of revenues at higher margins than original equipment sales. In 1999, we generated approximately 49% of our revenues from aftermarket products and services.

We believe we are the largest manufacturer of pumps used in the petroleum and chemical industries, with approximately 59% of our 1999 sales from companies operating in those industries. Due to the simultaneous decline in oil and chemical prices in 1998 and 1999, many of our key customers reduced their capital spending, which resulted in declines in our revenues, net income and EBITDA in those years. Additionally, the economic downturn in Asia in late 1997 and 1998 had a negative impact on our overall business in that region. With the strong recent recovery in oil prices to a year to date high of over $35.00 per barrel in 2000 from a low of $10.73 in December of 1998, higher expected chemical prices and renewed signs of economic growth in Asia, we are seeing renewed capital spending by our customers that should result in increasing bookings and revenues for us. In general, market improvements reflected in our bookings precede revenue growth by six to twelve months. We have already begun to see tangible signs of recovery in our petroleum and chemical end-markets as bidding activity and bookings are improving.

On August 8, 2000, Flowserve acquired all of the equity interests of IDP from Ingersoll-Rand Company for a consideration of $775.0 million. IDP is a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries. As a result of the IDP acquisition, we expect to:

- be the second largest pump manufacturer in the world (improving from fifth and seventh largest for IDP and Flowserve, respectively);

- be the largest pump manufacturer for the petroleum, chemical and power generation industries;

- offer a more comprehensive range of products and services at a time when our customers are seeking to lower costs by reducing supplier relationships;





- expand our customer base in the water, general industrial, mining, paper, power and U.S. Navy sectors;

- diversify our customer and geographic sales mix, reducing the impact of commodity price cycles and regional economic downturns; and

- triple Flowserve's installed equipment base to an estimated 1,100,000 pumps worldwide, creating a significant opportunity to capture additional recurring aftermarket replacement parts and service revenue.

Our acquisition of IDP also provides significant cost saving opportunities, which we estimate to be $75.0 million by mid-2002. We will incur significant cash integration costs to achieve these cost savings. We expect these cost savings to result from the execution of a number of actions including:

- eliminating redundant administrative overhead;

- reducing overlapping sales personnel; and

- eliminating fixed costs by shifting manufacturing capacity to more economic facilities.

In addition to the tangible and identified cost savings, we also expect to benefit from significant operating synergies from several initiatives, including:

- capitalizing on the opportunities to cross-sell valves, mechanical seals and aftermarket services to IDP customers that are currently being serviced by our competitors;

- realizing volume procurement savings; and

- lowering unit variable costs due to larger scale and better capacity utilization.

We believe we are well positioned to gain market share and increase revenues, net income and EBITDA by (i) leveraging our leading market position; (ii) cross-selling our comprehensive product offerings; (iii) capitalizing on our customers' trend to outsource service and repair; (iv) realizing significant cost savings and operating synergies from the IDP acquisition; and (v) benefiting from the recent improvement of our end markets.

## INDUSTRY

The flow control industry generates $54-57 billion per year in worldwide sales and includes pumps, valves, mechanical seals and aftermarket services. According to industry sources, engineered pumps account for approximately $23 billion, valves approximately $21 billion, seals approximately $2-3 billion and aftermarket services approximately $8-10 billion of annual worldwide sales. The pumps, seals, valves and aftermarket services segments are projected to grow annually at 3-4%, 3-4%, 3-4% and 7-8%, respectively, over the next several years. The engineered pump segment in which we operate excludes non-industrial applications, such as residential, which represents a market of approximately equivalent size to the industrial segment.

Quality and reliability of equipment are critical in the industry as the failure of a pump, valve or seal may halt the flow process. Of the three product types, at the time of the original equipment purchase, pumps are generally the most expensive followed by valves then seals. During the replacement cycle, seals may have to be replaced every few hours in highly corrosive applications, while pumps can run for months or years before needing replacement. Products and services in the flow control industry are sold to engineering and construction firms, OEMs, distributors and end users throughout the world.

Despite the consolidation trend over the past ten years, the industry remains highly fragmented. Competition for original equipment sales among the industry leaders is primarily against a select group of large companies operating on a global scale. Competition for original equipment sales is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history



and reputation for quality. In the pump segment, there are more than 500 companies, with the top ten pump companies accounting for less than 40% of total 1999 estimated worldwide annual pump sales. In the valve segment, we believe that the top ten domestic manufacturers generate less than 25% of domestic sales. The aftermarket service sector is extremely fragmented as many end users either use in-house resources or buy service from local operators, which are often very small.

## COMPETITIVE STRENGTHS

WORLDWIDE MARKET LEADER. We are the largest provider of comprehensive flow control systems in the world, offering an extensive range of pumps, valves, mechanical seals and aftermarket services. We are the largest pump manufacturer serving the petroleum, chemical and power generation industries and the second largest overall pump manufacturer in the world. We believe we are also the largest independent aftermarket product and service provider for the flow control industry. We have one of the most extensive global manufacturing and service networks in the industry, with 49 manufacturing facilities and more than 150 service and repair centers in 30 countries (after giving effect to planned facilities rationalization within the first twelve months after closing of the IDP acquisition). As the larger end users of flow control products continue to consolidate and operate globally, they seek providers that can offer a broad range of products and services on a global basis. Our widely recognized global brands, extensive breadth of product and service offerings and worldwide presence position us to serve our customers' flow control needs and capture additional business.

AFTERMARKET SERVICES PROVIDE STABLE, CONSISTENT REVENUES. Industry analysts estimate that approximately 86% of the lifetime cost of a pump consists of aftermarket replacement parts, services and maintenance. We have a strong and growing aftermarket business, representing approximately 49% of our 1999 revenues. The consistent requirement for maintenance and installation of replacement parts provides us with a steady source of revenues from our aftermarket business at significantly higher margins than our original equipment business. As a result of Flowserve's historic focus on aftermarket services, we

believe Flowserve has achieved approximately 50% higher aftermarket revenue per installed pump than IDP. The opportunity to leverage IDP's installed pump base to increase our aftermarket business provides us with significant potential for growth.

LARGE INSTALLED EQUIPMENT BASE. We believe our global installed base of approximately 1,100,000 pumps is the largest in the industry and provides us with a unique platform to grow our aftermarket service business. When outsourced, a significant amount of replacement parts orders and aftermarket services business is awarded to the original equipment manufacturer, assuming they provide those parts and services. We are well positioned to capitalize on IDP's large installed equipment base which is significantly larger than Flowserve's installed base, by utilizing our extensive service network of more than 150 service and repair centers to cross-sell aftermarket products and services to IDP's pump customers.

PROVEN ABILITY TO INTEGRATE ACQUISITIONS. Flowserve's management team has extensive experience in acquiring and integrating companies, having completed 23 acquisitions since 1990. We completed the integration of the merger of Durco International Inc. with BW/IP, Inc., which created Flowserve in 1997, approximately one year ahead of schedule and generated annual cost savings in excess of $37 million, which was approximately 10% greater than originally announced. We employ a systematic and decisive approach to integrating acquired companies by implementing best practices across our operations, rationalizing manufacturing capacity, eliminating overlapping sales and service coverage, reducing overhead costs, leveraging supply chain opportunities and developing additional cross-selling opportunities. Most of our key operating managers who led the integration of our predecessor companies, BW/IP and Durco, will be responsible for the integration of Flowserve and IDP. In order to integrate IDP, we have a team of specialists from Flowserve, IDP and third party consultants exclusively dedicated to the integration.

GLOBAL MANUFACTURING AND SERVICE CAPABILITIES. After giving effect to planned facilities rationalization, we will have one of the most extensive global manufacturing and service networks in the industry, with 49 manufacturing facilities and more than 150 service and repair centers located in 30 countries. Our global operations help us serve our customers' manufacturing and aftermarket service needs on a 24-hour basis. Because of the critical nature of the applications in which our products are used, immediate



response times are important to capturing and retaining our customer's business. Original equipment sales benefit from our global presence, as our customers often require real-time design and engineering assistance for new projects.

DIVERSE CUSTOMER MIX. We sell our products and services to more than 1,000 companies globally including the world's leading engineering and construction firms, OEMs, distributors and end users. In 1999, no one customer accounted for more than 3% of our revenues, and our top ten customers accounted for approximately 11% of our revenues. Our customers operate in many industries throughout the world, including petroleum, chemical, power generation and water treatment. Our acquisition of IDP significantly increases our market share in the power and water industries, both of which are expected to continue to grow faster than the overall flow control industry.

COMPREHENSIVE PRODUCT OFFERINGS WITH LEADING BRANDS. We believe we offer the most comprehensive array of products and services in the industry, providing a "one-stop shop" for our customers, who increasingly require comprehensive flow control solutions including pumps, valves, seals and services. Many of our brands have an extensive history within our industry and are well-known for their superior quality and high performance, including Flowserve(R), Byron Jackson(R), Durco(R), Atomac(TM), BW Seals(R), Durametallic(R), United Centrifugal(R), Stork(R), Worthington(R), Jeumont Schneider(R), Pleuger(R), Pacific Wietz(TM) and Scienco(R). Our brand identity has created customer loyalty and helps us capture additional business, as well as maintain existing business, particularly as our customers look to procure from fewer manufacturers.

EXPERIENCED MANAGEMENT TEAM. Our senior management team has an average of over 25 years of experience in industrial manufacturing. In addition, this team has substantial experience in the integration of acquired businesses, supply chain management and lean manufacturing techniques. Our operating division managers are among the most experienced in the flow control industry, with an

average of more than 20 years of experience.

## BUSINESS STRATEGY

EFFICIENTLY INTEGRATE IDP'S OPERATIONS AND CAPITALIZE ON OPPORTUNITIES FOR OPERATING SYNERGIES. We have begun to quickly integrate IDP's business in order to capitalize on the significant operating and financial benefits of the IDP acquisition. We have established a dedicated integration team comprised of representatives from Flowserve, IDP and third party consultants that has created a detailed plan to capture cost savings and achieve operating synergies through eliminating redundant administrative overhead, cutting overlapping sales personnel, shifting production to lower cost facilities, and realizing volume procurement savings and other opportunities.

BECOME THE LOW COST PRODUCER AND INCREASE OPERATIONAL EFFICIENCY. We continue to lower costs, enhance product quality, reduce manufacturing inefficiency and increase product throughput. We have several initiatives in process to accomplish this, including:

- FOCUS ON SUPPLY CHAIN MANAGEMENT. Supply chain management focuses on reducing procurement costs. We have implemented several initiatives, including creating alliances, standardizing procedures, negotiating more favorable contract terms and conditions and forming dedicated teams for procurement of raw materials on a company-wide basis.

- INCREASE OPERATIONAL EFFICIENCY. In early 2000, Flowserve introduced a "lean" manufacturing program that is focused on optimizing the productivity and profitability of Flowserve's plants around the world. For example, in Flowserve's Kalamazoo, Michigan facility, Flowserve expects to experience in 2001 an approximate 25% increase in productivity, 25% reduction in work in process, 25% reduction in lead times and a significant increase in usable shop floor space.

- IMPLEMENT 6 SIGMA. The 6 Sigma Value Analysis process has been launched within IDP to accelerate improvement of processes, products and services. This analytical process is focused on reducing product defects, improving product quality and streamlining manufacturing and transactional processes. We believe this process resulted in total cost savings for IDP of approximately $10 million in 1999.



GROW AFTERMARKET SERVICE BUSINESS. Growing our aftermarket business is an essential aspect of our strategy which complements our manufacturing capabilities. Historically, many of our customers have utilized their in-house service capabilities and outsourced only the most technical portion of their service needs. Customers are increasingly utilizing third party aftermarket service providers like us to reduce their fixed costs and improve profitability. Our leading installed equipment base creates a powerful platform from which we can expand this business. Our aftermarket products and service business offers steady revenues with margins significantly higher than our original equipment sales and enables us to remain close to our customers and quickly address their requirements. We have significantly enhanced our aftermarket business with the acquisition of Invatec. Invatec focuses on valve service and repair, which complements Flowserve's pump and seal repair expertise, allowing us to expand the range of services offered to our customers.

PURSUE CROSS-SELLING OPPORTUNITIES. Historically, IDP has focused on manufacturing pumps for the original equipment market. In contrast, Flowserve's strategy focuses on meeting the full range of end user needs from original equipment (pumps, valves and seals) to replacement parts and services. We plan to capitalize on the cross-selling opportunities created by Flowserve's comprehensive aftermarket business platform and IDP's extensive installed equipment base. In addition, significant opportunities exist to cross-sell valves and mechanical seals to IDP's pump customers, which are being primarily serviced by our competitors. Further, Invatec's expanded service center network provides an opportunity for us to extend pump repair coverage to Flowserve's and IDP's customer base.

## THE TRANSACTIONS

We will not receive any cash proceeds from the issuance of the exchange notes offered hereby. In consideration for issuing the notes contemplated by this prospectus, we will receive in exchange the outstanding notes in like principal amount. The outstanding notes surrendered in exchange for the exchange notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the exchange notes will not result in any change in our indebtedness.

On August 8, 2000, Flowserve acquired IDP from Ingersoll-Rand Company for consideration of $775.0 million. In order to finance the IDP acquisition, refinance existing indebtedness of Flowserve and pay related transaction fees and expenses, we:

- entered into and incurred initial borrowings of $750.0 million under new senior credit facilities (the "Senior Credit Facilities") which provide for borrowings of up to $1.05 billion; and

- issued the outstanding dollar notes and, through our subsidiary Flowserve Finance, the outstanding euro notes.

The following table sets forth the sources and uses of funds for the IDP acquisition as of June 30, 2000 on a pro forma basis, as though the Transactions had occurred at that date:

(DOLLARS IN MILLIONS)

| | |
|---|---|
| SOURCES: | |
| Cash and Cash Equivalents..... | $ 22.0 |
| Term Loan Facilities(1)..... | 750.0 |
| Senior Subordinated Dollar Notes(3)... | 285.9 |
| Senior Subordinated Euro Notes(3)(4)... | 89.1 |
| Total Sources..... | $1,147.0 |
| USES: | |
| Purchase of IDP..... | $ 775.0 |
| Refinance Existing Flowserve Debt(2)..... | 315.4 |
| Transaction Fees and Expenses..... | 56.6 |
| Total Uses..... | $1,147.0 |

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(1) Includes two facilities, Term Loan A and Term Loan B, which we collectively refer to as the Term Loan Facilities. The Term Loan A facility of $275.0 million will mature in six years and the Term Loan B facility of $475.0 million will mature in eight years.

(2) Includes debt incurred in connection with the Invatec acquisition, which closed on January 13, 2000.

(3) Reflects issuance of the senior subordinated dollar notes of $290.0 million and the senior subordinated euro notes of E100.0 million at 98.586% of face value.

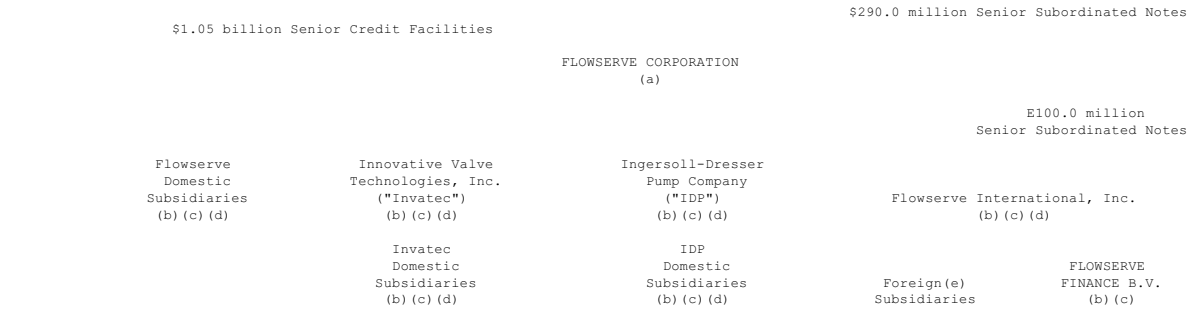
(4) Utilizing a conversion rate of euro into U.S. dollars of E0.9033 to $1.00, which was the rate in effect on August 3, 2000.



## CORPORATE STRUCTURE FOR FLOWSERVE CORPORATION/FLOWSERVE FINANCE B.V. OFFERINGS

The following chart sets forth our corporate structure.

CORPORATE STRUCTURE FOR FLOWSERVE CORPORATION/FLOWSERVE BV OFFERING

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(a) Guarantor (on a senior subordinated basis) of outstanding euro notes issued by Flowserve Finance B.V.

(b) Guarantor (on a senior basis) of Senior Credit Facilities.

(c) Guarantor (on a senior subordinated basis) of dollar notes issued by Flowserve Corporation.

(d) Guarantor (on a senior subordinated basis) of euro notes issued by Flowserve Finance B.V.

(e) Intercompany loans to Flowserve's foreign subsidiaries out of proceeds of the offering of the euro notes issued by Flowserve Finance B.V., including loans made initially to Flowserve's subsidiaries in Germany and Italy to purchase the outstanding shares of IDP subsidiaries in Germany and Italy in connection with the closing of the IDP acquisition.



## SUMMARY OF THE TERMS OF THE EXCHANGE OFFER

The exchange offer relates to the exchange of up to $290,000,000 aggregate principal amount of the outstanding 12 1/4% Senior Subordinated Notes due August 15, 2010 and up to E100,000,000 aggregate principal amount of the outstanding 12 1/4% Senior Subordinated Notes due August 15, 2010 for an equal aggregate principal amount of exchange notes. The exchange notes will be our obligations (and the obligation of Flowserve Finance in the case of the euro exchange notes) and are entitled to the benefits of the indentures relating to the outstanding notes. The form and terms of the exchange notes are identical in all material respects to the form and terms of the outstanding notes, except that the exchange notes have been registered under the Securities Act of 1933, and therefore contain no restrictive legends. The exchange notes are not entitled to the benefits of the registration rights granted under the registration rights agreements, executed as a part of the offering of the outstanding notes, each dated as of August 8, 2000, among, in the case of the outstanding dollar notes, Flowserve Corporation, the guarantors of the outstanding dollar notes and the initial purchasers of the outstanding dollar notes and, in the case of the outstanding euro notes, Flowserve Finance B.V., the guarantors of the outstanding euro notes and the initial purchasers of the outstanding euro notes.

REGISTRATION RIGHTS..... In August 2000, Flowserve Corporation and Flowserve Finance and the initial purchasers agreed that you, as a holder of the outstanding notes, would be entitled to exchange your notes for registered notes with substantially identical terms. This exchange offer is intended to satisfy these rights. After the exchange offer is complete, you will no longer be entitled to any exchange or registration rights with respect to your outstanding notes.

THE EXCHANGE OFFER..... Flowserve Corporation is offering to exchange:

- $1,000 principal amount of 12 1/4% Senior Subordinated Notes due 2010 which have been registered under the Securities Act of 1933 for each $1,000 principal amount of its outstanding

12 1/4% Senior Subordinated Notes due 2010, which were issued on August 8, 2000 in a private offering; and

Flowserve Finance B. V. is offering to exchange:

- E1,000 principal amount of 12 1/4% Senior Subordinated Notes due 2010 which have been registered under the Securities Act of 1933 for each E1,000 principal amount of its outstanding 12 1/4% Senior Subordinated Notes due 2010 which were issued on August 8, 2000 in a private offering.

In order to be exchanged, an outstanding note must be properly tendered and accepted. All outstanding notes that are validly tendered and not validly withdrawn will be exchanged.

As of this date, there are $290 million in aggregate principal amount of outstanding 12 1/4% Senior Subordinated Notes due 2010 and E100 million in aggregate principal amount of outstanding 12 1/4% Senior Subordinated Notes due 2010.

We will issue the exchange notes to you on or promptly after the expiration of the Exchange Offer.

RESALE OF THE NOTES ISSUED IN THE EXCHANGE OFFER.. Based on an interpretation by the staff of the Securities and Exchange Commission set forth in no-action letters issued to third parties, including "Exxon Capital Holdings Corporation" (available May 13,





1988), "Morgan Stanley & Co. Incorporated" (available June 5, 1991), "Mary Kay Cosmetics, Inc." (available June 5, 1991) and "Warnaco, Inc." (available October 11, 1991), we believe that the notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by you under U.S. federal securities laws without compliance with the registration and prospectus delivery provisions of the Securities Act of 1933 provided that:

- you are acquiring the notes issued in the exchange offer in the ordinary course of business;

- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the notes issued to you in the exchange offer;

- you are not a broker-dealer who purchased the outstanding notes directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act of 1933; and

- you are not an "affiliate" of ours.

If our belief is inaccurate and you transfer any note issued to you in the exchange offer without delivering a prospectus meeting the requirements of the Securities Act of 1933 or without an exemption from registration of your notes from such requirements, you may incur liability under the Securities Act of 1933. We do not assume or indemnify you against such liability, but we do not

believe that any such liability should exist.

Each broker-dealer that is issued notes in the exchange offer for its own account in exchange for notes which were acquired by such broker-dealer as a result of market-making or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act of 1933, in connection with any resale of the notes issued in the exchange offer. The letter of transmittal states that by so acknowledging and by delivering a prospectus, such broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933. A broker-dealer may use this prospectus for an offer to resell or otherwise retransfer of the notes issued to it in the exchange offer. We have agreed that, for a period of 180 days after the date of this prospectus, we will make this prospectus and any amendment or supplement to this prospectus available to any such broker-dealer for use in connection with any such resales. We do not believe that any registered holder of the outstanding notes is an affiliate (as such term is defined in Rule 405 of Securities Act of 1933) of ours.

The exchange offer is not being made to, nor will we or Flowserve Finance accept surrenders for exchange from, holders of outstanding notes in any jurisdiction in which this exchange offer or the acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.

EXPIRATION OF EXCHANGE OFFER.....

The exchange offer will expire at 12:00 p.m., New York City time (5:00 p.m., London time), for the outstanding notes, on , 2000, unless we decide to extend the expiration date.





ACCRUED INTEREST ON THE NOTES ISSUED IN THE EXCHANGE OFFER AND THE OUTSTANDING NOTES.....

The notes issued in the exchange offer will bear interest from August 8, 2000. Holders of outstanding notes whose outstanding notes are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest on such outstanding notes accrued from August 8, 2000 to the date of the issuance of the exchange notes. Consequently, holders who exchange their outstanding notes for exchange notes will receive the same interest payment on February 15, 2001 (the first interest payment date with respect to the outstanding notes and the notes issued in the exchange offer) that they would have received had they not accepted the exchange offer.

TERMINATION OF THE EXCHANGE OFFER.....

We may terminate the exchange offer if we determine that our ability to proceed with the exchange offer could be materially impaired due to any legal or governmental action, new law, statute, rule or regulation or any interpretation of the staff of the Securities and Exchange Commission of any existing law, statute, rule or regulation. We do not expect any of the foregoing conditions to occur, although there can be no assurance that such conditions will not occur. Holders of outstanding notes will have certain rights against our company

| | |
|---|---|
| | under the registration rights agreements executed as part of the offering of the outstanding notes should we fail to consummate the exchange offer. |
| PROCEDURES FOR TENDERING OUTSTANDING NOTES..... | If you are a holder of an outstanding dollar note and you wish to tender your note for exchange pursuant to the exchange offer, you must transmit to The Bank of New York, at its New York office as exchange agent for the dollar notes, on or prior to the expiration date a letter of transmittal in accordance with the instructions contained in the letter of transmittal accompanying this prospectus. Then you must mail, fax or deliver the completed letter of transmittal, together with the outstanding dollar notes you wish to exchange and any other required documentation, to The Bank of New York, which is acting as exchange agent. Its address appears on the letter of transmittal. However, if you hold outstanding dollar notes through The Depositary Trust Company ("DTC") and wish to participate in the exchange offer, you must comply with DTC's Automated Tender Offer Program procedures, by which you will agree to be bound by the letter of transmittal.<br><br>If you are a holder of an outstanding euro note and you wish to tender your note for exchange pursuant to the exchange offer, you must transmit to The Bank of New York, at its London office as exchange agent for the euro notes, on or prior to the expiration date:<br><br>- a computer-generated message transmitted in accordance with Euroclear's or Clearstream, Luxembourg's, as the case may be, standard operating procedures for electronic tenders and received by Euroclear or Clearstream, Luxembourg and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal which accompanies this prospectus; and |





| | |
|---|---|
| | - a timely confirmation of book-entry transfer of your outstanding euro notes to either Euroclear or Clearstream, Luxembourg, as the case may be, pursuant to the procedure for book-entry transfers described in this prospectus under the heading "The Exchange Offer -- Procedure for Tendering," must be received by the exchange agent in London on or prior to the expiration date.<br><br>By agreeing to the terms of the letter of transmittal which accompanies this prospectus, each holder will represent to us that, among other things, (i) the notes to be issued in the exchange offer are being obtained in the ordinary course of business of the person receiving such notes whether or not such person is the holder, (ii) neither the holder nor any such other person has an arrangement or understanding with any person to participate in the distribution or such notes and (iii) neither the holder nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act of 1933, of ours. |
| SPECIAL PROCEDURES FOR BENEFICIAL OWNERS..... | If you are a beneficial owner of outstanding notes that are registered in the name of a broker, |

| | |
|---|---|
| | dealer, commercial bank, trust company or other nominee and you wish to tender such notes in the exchange offer, you should contact such person whose name your notes are registered promptly and instruct such person to tender on your behalf. If you, as such beneficial holder, wish to tender on your own behalf you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of record ownership may take considerable time. |
| GUARANTEED DELIVERY PROCEDURES FOR OUTSTANDING NOTES..... | If you wish to tender your outstanding dollar notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedure for book-entry transfer cannot be completed on time or certificates for registered notes cannot be delivered on time, you may tender your outstanding dollar notes pursuant to the guaranteed delivery procedures described in this prospectus under the heading "The Exchange Offer -- Guaranteed Delivery Procedure for Outstanding Dollar Notes." The guaranteed delivery procedures are not available for euro notes. |
| WITHDRAWAL RIGHTS..... | You may withdraw the tender of your outstanding notes at any time prior to 12:00 p.m., New York City time (5:00 p.m. London time), on , 2000, the business day prior to the expiration date, unless your outstanding notes were previously accepted for exchange. |
| ACCEPTANCE OF OUTSTANDING NOTES AND DELIVERY OF NOTES TO BE ISSUED IN THE EXCHANGE OFFER..... | Subject to the conditions summarized above in "Termination of the Exchange Offer" and described more fully under the "The Exchange Offer -- Termination," we will accept for exchange any and all outstanding notes which are properly tendered in the exchange offer prior to 12:00 p.m., New York City time (5:00 p.m. London time), on |



| | |
|---|---|
| | the expiration date. The notes issued pursuant to the exchange offer will be delivered promptly following the expiration date. |
| CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES..... | The exchange of the notes will generally not be a taxable exchange for United States federal income tax purposes. |
| USE OF PROCEEDS..... | We will not receive any proceeds from the issuance of notes pursuant to the exchange offer. We will pay all expenses incident to the exchange offer. |
| EXCHANGE AGENT FOR OUTSTANDING NOTES..... | The Bank of New York is serving as exchange agent in connection with the outstanding notes. The exchange agent with respect to matters concerning the outstanding dollar notes can be reached at 101 Barclay Street, New York, N.Y. 10286. The exchange agent with respect to matters concerning the outstanding euro notes can be reached at 30 Common Street, London EC4M 6XH. For more information with respect to the exchange of outstanding dollar |

notes, the telephone number of the exchange agent in New York is (212) 815-6331 and the facsimile number is (212) 815-6339. For more information with respect to the exchange of outstanding euro notes, the telephone number is 011 44 207 964-7284 or 011 44 207 964-7235 and the facsimile number is 011 44 207 964-6369 or 011 44 207 964-7294.





## DESCRIPTION OF THE NOTES TO BE ISSUED IN THE EXCHANGE OFFER

| | |
|---|---|
| **ISSUER** | |
| Dollar Notes..... | Flowserve Corporation |
| Euro Notes..... | Flowserve Finance B.V., an indirect wholly owned subsidiary of Flowserve |
| **SECURITIES OFFERED** | |
| Dollar Notes..... | $290,000,000 aggregate principal amount of 12 1/4% Senior Subordinated Notes Due 2010, which we refer to as dollar notes, of Flowserve. |
| Euro Notes..... | E100,000,000 aggregate principal amount of 12 1/4% Senior Subordinated Notes Due 2010, which we refer to as euro notes, of Flowserve Finance. We refer to the euro notes and the dollar notes, collectively, as the notes or the exchange notes. |
| **MATURITY DATE** | |
| Dollar Notes..... | August 15, 2010 |
| Euro Notes..... | August 15, 2010 |
| **INTEREST PAYMENTS** | |
| Dollar Notes..... | 12 1/4% per year, payable February 15, and August 15 of each year, commencing February 15, 2001. |
| Euro Notes..... | 12 1/4% per year, payable February 15, and August 15 of each year, commencing February 15, 2001. |
| OPTIONAL REDEMPTION..... | We (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) cannot redeem the notes issued by each of them prior to August 15, 2005 except as discussed below. Until August 15, 2003, we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) can choose to redeem the applicable notes in an amount not to exceed 35.0% of the sum of the original principal amount of the applicable notes with money we receive from certain equity offerings, as long as:<br>- we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) pay the holders of the applicable notes a redemption price of 112.25% (in the case of the dollar notes) and 112.25% (in the case of the euro notes) of the principal amount of the applicable notes, plus accrued but unpaid interest to the date of redemption; and<br>- at least 65.0% of the original aggregate principal amount of the respective dollar notes and the euro notes remains outstanding after each such redemption.<br>On or after August 15, 2005, we (in the case of the |

dollar notes) and Flowserve Finance (in the case of the euro notes) can redeem some or all of the notes issued by each of them at the redemption prices listed in the "Description of the Notes -- Optional Redemption" section of this prospectus, plus accrued but unpaid interest to the date of redemption.



| | |
|---|---|
| PAYMENTS OF ADDITIONAL AMOUNTS..... | All payments of principal and interest with respect to the euro notes will be made free and clear of, and without withholding or deduction for and on account of, any present or future taxes, duties, levies, imposts, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any successor jurisdiction or any political subdivision or taxing authority thereof or therein having power to tax, unless such withholding or deduction is required by law or by regulation or governmental policy of general application. In the event that any such withholding or deduction is so required, subject to certain exceptions, Flowserve Finance will pay such additional amounts as will result in receipt by holders of the euro notes of such amounts as would have been received by them had no such withholding or deduction been required. See "Description of the Notes -- Withholding Taxes". |
| REDEMPTION FOR TAX REASONS..... | Upon the occurrence of certain changes in or amendments to The Netherlands tax law requiring the payment of additional amounts, Flowserve Finance may redeem the euro notes at 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date fixed for redemption. See "Description of the Notes -- Withholding Taxes". |
| EXCESS CASH FLOW REPURCHASE OFFER..... | If we have excess cash flow for any fiscal year (commencing with the fiscal year ending December 31, 2001), we will be required, subject to certain exceptions and limitations, to make an offer to purchase, on a pro rata basis, dollar notes and euro notes with 50% of such excess cash flow (reduced by the amount of any similar payments we elect or are required to make to our senior lenders or other holders of senior indebtedness) at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The term "Excess Cash Flow" is defined in the "Description of the Notes -- Certain Definitions" section of this prospectus. |
| CHANGE OF CONTROL OFFER.... | If we experience a change of control, subject to certain conditions, we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) must give holders of the respective notes an opportunity to sell to them their notes at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest. The term "Change of Control" is defined in the "Description of the Notes -- Change of Control" section of this prospectus. |
| RANKING..... | The dollar notes will be senior subordinated unsecured obligations of ours and the euro notes will be senior subordinated unsecured obligations of Flowserve Finance. They will rank ahead in right of payment of any of our (in the case of the dollar notes) and Flowserve Finance's (in the case of the |

euro notes) future subordinated obligations, equal in right of payment with any of our (in the case of the dollar notes) and Flowserve Finance's (in the case of the euro notes) existing and future senior subordinated indebtedness and behind in right of payment to any of our (in the case of the dollar notes) and Flowserve Finance's (in the case of the euro notes) existing and future senior indebtedness. As of June 30, 2000, on a pro forma basis after giving effect to the Transactions, we would have had approximately



$750.0 million in the aggregate of senior indebtedness outstanding (which would have represented indebtedness under our Senior Credit Facilities), and Flowserve Finance would have had no senior indebtedness outstanding except its senior guaranty under our Senior Credit Facilities. We would have had additional availability of approximately $270.0 million, net of issued letters of credit, for revolving credit facility borrowings under our Senior Credit Facilities, all of which would be senior indebtedness, if borrowed. We and Flowserve Finance may incur additional senior indebtedness in the future, subject to restrictions. The terms "Senior Indebtedness", "Senior Subordinated Indebtedness" and "Subordinated Obligations" are defined in the "Description of the Notes -- Certain Definitions" section in this prospectus.

GUARANTIES..... Upon consummation of the exchange offer, Flowserve Finance, Flowserve International Limited ("Flowserve International") and our material domestic subsidiaries will guarantee the dollar notes, and we, Flowserve International and our material domestic subsidiaries will guarantee the euro notes.

Each guarantor will provide a full and unconditional guarantee of the payment of the principal, premium and interest on the notes on a senior subordinated unsecured basis.

The guaranty by each guarantor will be subordinated to all existing and future senior indebtedness of such guarantor. See "Description of the Notes -- Guaranties".

A substantial portion of our business is conducted through our foreign operating subsidiaries, none of which will be guarantors of the notes other than Flowserve International (in the case of the dollar notes and the euro notes) and Flowserve Finance (in the case of the dollar notes).

RESTRICTIVE COVENANTS..... The indentures governing the dollar notes and the euro notes will each contain covenants that limit our ability and the ability of certain of our subsidiaries (including Flowserve Finance) to:

- incur or guarantee additional indebtedness;

- pay dividends and make distributions;

- make investments and other restricted payments;

- permit payment or dividend restrictions on our subsidiaries;

- transfer or sell assets;

- engage in transactions with affiliates; and

- consolidate or merge.

The indenture governing the euro notes will also restrict Flowserve Finance from engaging in business activities other than those incident to the issuance and payment of the euro notes, the issuance of guaranties of the Senior Credit Facilities and the dollar notes and the lending of intercompany loans to other Flowserve subsidiaries, and will require that Flowserve Finance remain a wholly owned subsidiary of ours.



All these restrictions and prohibitions are subject to a number of important qualifications and exceptions. See "Description of the Notes -- Certain Covenants".

LISTING..... We intend to list the euro exchange notes on the Luxembourg Stock Exchange. We do not intend to list the dollar exchange notes on any exchange.

CONSEQUENCES OF FAILURE TO EXCHANGE..... Untendered outstanding notes will remain restricted securities and will continue to be subject to the following restrictions on transfer:

(i) outstanding notes may be resold only if registered pursuant to the Securities Act of 1933, if an exemption from registration is available, or if neither such registration nor such exemption is required by law,

(ii) outstanding notes shall bear a legend restricting transfer in the absence of registration or an exemption therefrom, and

(iii) a holder of outstanding notes who desires to sell or otherwise dispose of all or any part of its outstanding notes under an exemption from registration under the Securities Act of 1933, if requested by us, must deliver to us an opinion of independent counsel experienced in Securities Act matters, reasonably satisfactory in form and substance to us, that such exemption is available. See "Risk Factors -- Consequences of failure to exchange your outstanding notes for exchange notes."

For more complete information about the notes, see "Description of the Notes".

## RISK FACTORS

Investing in the notes involves substantial risks. See the "Risk Factors" section of this prospectus for a description of certain of the risks you should carefully consider before exchanging your outstanding notes.

## ADDITIONAL INFORMATION

Flowserve is incorporated under the laws of the State of New York. Our principal executive offices are located at 222 W. Las Colinas Blvd., Suite 1500, Irving, Texas 75039. Our telephone number is (972) 443-6500. Flowserve Finance is a company formed under the laws of The Netherlands. Its corporate seat is at Amsterdam, The Netherlands and its principal executive offices are located at Parallelweg 6, Etten-Leur 4870 AA, The Netherlands, and its telephone number is 011-31-76-502-8200.

## SUMMARY UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following summary unaudited pro forma condensed consolidated financial information is based on the historical consolidated financial statements of Flowserve Corporation, Innovative Valve Technologies, Inc. and Ingersoll-Dresser Pump Company included elsewhere in this prospectus, adjusted to give effect to the acquisition of Invatec and the Transactions.

The unaudited pro forma consolidated statement of operations data for the year ended December 31, 1999 and the six months ended June 30, 1999 and June 30, 2000 give effect to the acquisition of Invatec and the Transactions as if they had occurred on January 1, 1999. The unaudited pro forma consolidated balance sheet data give effect to the Transactions as if they had occurred as of June 30, 2000.

The following summary unaudited pro forma condensed consolidated financial information should be read in conjunction with "Summary Historical Consolidated Financial Information of Flowserve Corporation," "Summary Historical Consolidated Financial Information of Ingersoll-Dresser Pump Company," "Capitalization," "Unaudited Pro Forma Consolidated Financial Statements," "Selected Historical Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements of Flowserve Corporation, Innovative Valve Technologies, Inc. and Ingersoll-Dresser Pump Company included elsewhere in this prospectus.

| | YEAR ENDED | SIX MONTHS ENDED | |
|---|---|---|---|
| | DECEMBER 31, 1999 | JUNE 30, 1999 | JUNE 30, 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Net sales | $2,060.7 | $1,031.2 | $947.9 |
| Cost of sales | 1,433.8 | 715.3 | 662.4 |
| Gross profit | 626.8 | 315.8 | 285.5 |
| Operating income | 87.4 | 56.0 | 53.0 |
| Loss before income taxes | (35.4) | (9.4) | (7.4) |
| Benefit for income taxes | (12.7) | (3.4) | (2.7) |
| Net loss | $ (22.7) | $ (6.0) | $ (4.7) |

## SUMMARY OF HISTORICAL AND PRO FORMA EBITDA RESULTS

You should read the following summary historical calculation of EBITDA, as defined, in conjunction with the consolidated financial statements and other financial information of Flowserve included elsewhere in this prospectus. The definition of EBITDA, used herein, may differ from the definition of EBITDA used by other companies and should not be considered as an alternative to net income, cash flows or any other items calculated in accordance with generally accepted accounting principles or as an indicator of Flowserve's operating performance.

### HISTORICAL EBITDA (AS DEFINED)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| Flowserve Corporation(1) | $142.9 | $157.7 | $175.0 | $167.7 | $113.2 |
| IDP(2) | $ 46.1 | $ 72.9 | $ 84.3 | $ 94.5 | $ 87.1 |





### PRO FORMA EBITDA(3)

| | HISTORICAL | | INVATEC ACQUISITION ADJUSTMENTS | PRO FORMA FLOWSERVE/ INVATEC | HISTORICAL IDP | IDP ACQUISITION/ FINANCING ADJUSTMENTS | PROFORMA CONSOLIDATED |
|---|---|---|---|---|---|---|---|
| | FLOWSERVE | INVATEC | | | | | |
| For the year ended December 31, 1999..... | $113.2 | $11.5 | $1.6 | $126.3 | $87.1 | $10.2 | $223.6 |
| For the six months ended June 30, 1999..... | $ 65.8 | $ 6.6 | $ -- | $ 72.4 | $35.8 | $ 4.5 | $112.7 |
| For the six months ended June 30, 2000..... | $ 68.2 | --(4) | --(4) | --(4) | $22.1 | $ 5.3 | $ 95.6 |

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(1) EBITDA means net income before interest, taxes, depreciation, amortization, other income, net (excluding commission and royalty income) and other non-recurring items. For Flowserve, other non-recurring items consist of merger transaction and restructuring expense, merger integration expense and, for the year ended December 31, 1999 non-cash charges of $5.8 million related to executive severance and facility closures and $5.1 million related to inventory and fixed asset impairment. Such definition of EBITDA may differ from the definition of EBITDA used by other companies and should not be considered as an alternative to net income, cash flows or any other items calculated in accordance with generally accepted accounting principles or as an indicator of Flowserve's operating performance.

(2) EBITDA means net income before interest, taxes, depreciation, amortization, other income, net (excluding commission and royalty income) and other non-recurring items. For IDP, other non-recurring items consist of restructuring expense and, in 1999, $3.1 million of non-recurring consultant expense and $0.9 million of severance expense.

(3) Pro forma EBITDA means net income (loss) before interest, taxes, depreciation, amortization, other income, net (excluding commission and royalty income) and other non-recurring items, on a pro forma basis.

For Flowserve, other non-recurring items consist of merger transaction and restructuring expense, merger integration expense and, for the year ended December 31, 1999, non-cash charges of $5.8 million related to executive severance and facility closures and $5.1 million related to inventory and fixed asset impairment.

For IDP, other non-recurring items consist of restructuring expense and, for the year ended December 31, 1999, $3.1 million of non-recurring consultant expense and $0.9 million of severance expense.

For Invatec, other non-recurring items in 1999 included $39.1 million of goodwill impairment, $3.8 million of loss on assets held for sale and $2.0 million of merger transaction costs.

(4) Flowserve historical includes the results of Invatec from January 13, 2000.



## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF FLOWSERVE CORPORATION

You should read the following summary historical consolidated financial information in conjunction with the consolidated financial statements and the other financial information of Flowserve included elsewhere in this prospectus.

| HISTORICAL | | | | |
|---|---|---|---|---|
| YEAR ENDED DECEMBER 31, | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 |
| (DOLLARS IN MILLIONS) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| RESULTS OF OPERATION: | | | | | |
| NET SALES | $ 983.9 | $1,097.6 | $1,152.2 | $1,083.1 | $1,061.3 |
| COST OF SALES | 591.6 | 668.7 | 703.3 | 667.7 | 697.9 |
| GROSS PROFIT | 392.3 | 428.9 | 448.9 | 415.4 | 363.4 |
| Selling and administrative expense | 264.4 | 283.4 | 285.9 | 265.6 | 275.9 |
| Research, engineering and development expense | 24.6 | 24.5 | 26.9 | 26.4 | 25.6 |
| Merger transaction and restructuring expense | 5.1 | 5.8 | 44.5 | -- | 15.9 |
| Merger integration expense | -- | -- | 7.0 | 38.3 | 14.2 |
| OPERATING INCOME | 98.2 | 115.2 | 84.6 | 85.1 | 31.8 |
| Interest expense | 12.3 | 12.1 | 13.3 | 13.2 | 15.5 |
| Other income, net | (2.5) | (5.2) | (18.5) | (1.3) | (2.0) |
| EARNINGS BEFORE INCOME TAXES | 88.4 | 108.3 | 89.8 | 73.2 | 18.3 |
| Provision for income taxes | 34.4 | 37.2 | 38.2 | 25.5 | 6.1 |
| Cumulative effect of change in accounting principle | -- | -- | -- | (1.2) | -- |
| NET INCOME | $ 54.0 | $ 71.1 | $ 51.6 | $ 48.9 | $ 12.2 |
| PER COMMON SHARE: | | | | | |
| Net earnings (basic and diluted) | $ 1.30 | $ 1.72 | $ 1.26 | $ 1.23 | $ 0.32 |
| Dividends paid | .51 | .57 | .65 | .56 | .56 |
| Book value(1) | 9.01 | 9.40 | 9.74 | 9.15 | 8.23 |
| OTHER FINANCIAL DATA: | | | | | |
| Bookings | $1,013.9 | $1,141.6 | $1,172.4 | $1,082.5 | $1,039.3 |
| Depreciation and amortization | 34.5 | 36.7 | 38.9 | 39.3 | 39.6 |
| Capital expenditures, net | 39.9 | 35.7 | 39.6 | 38.2 | 40.5 |
| BALANCE SHEET DATA (AS OF END OF PERIOD): | | | | | |
| Working capital | $ 251.8 | $ 280.0 | $ 284.2 | $ 268.2 | $ 258.1 |
| Total assets | 801.1 | 829.8 | 880.0 | 870.2 | 838.2 |
| Long-term debt | 125.9 | 144.0 | 128.9 | 186.3 | 198.0 |
| Shareholders' equity | 375.2 | 388.6 | 395.3 | 344.8 | 308.3 |

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(1) Calculated as shareholders' equity as of the end of the period divided by common shares issued, less amounts held in treasury.



## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF INGERSOLL-DRESSER PUMP COMPANY

You should read the following summary historical consolidated financial information in conjunction with the consolidated financial statements and the other financial information of IDP included elsewhere in this prospectus.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| | (UNAUDITED) | (DOLLARS IN MILLIONS) | | | |
| NET SALES | $793.1 | $856.3 | $865.1 | $907.2 | $838.4 |
| COST OF SALES | 607.5 | 641.2 | 637.2 | 661.1 | 610.7 |
| GROSS PROFIT | 185.6 | 215.1 | 227.9 | 246.1 | 227.7 |
| Selling and administrative expense | 162.5 | 163.2 | 163.1 | 168.9 | 162.1 |
| Research, engineering and development expense | 1.6 | 2.8 | 3.6 | 3.8 | 3.0 |
| Restructuring expense | -- | 4.5 | 19.5 | 3.6 | 0.2 |
| OPERATING INCOME | 21.5 | 44.6 | 41.7 | 69.8 | 62.4 |
| Interest expense | 1.7 | 1.5 | 1.3 | 1.6 | 1.4 |
| Other income, net | (13.0) | (5.0) | (4.1) | (7.1) | (7.5) |
| EARNINGS BEFORE INCOME TAXES | 32.8 | 48.1 | 44.5 | 75.3 | 68.5 |
| Provision for income taxes | 6.8 | 11.8 | 13.2 | 16.6 | 19.0 |
| NET INCOME | $ 26.0 | $ 36.3 | $ 31.3 | $ 58.7 | $ 49.5 |

| | | | | | |
|---|---|---|---|---|---|
| OTHER FINANCIAL DATA: | | | | | |
| Bookings | $827.8 | $855.0 | $919.7 | $925.9 | $840.0 |
| Depreciation and amortization | 21.6 | 20.5 | 20.1 | 19.0 | 18.3 |
| Capital expenditures, net | 17.3 | 17.0 | 16.3 | 20.3 | 18.2 |
| BALANCE SHEET DATA (AS OF END OF PERIOD): | | | | | |
| Working capital | $261.4 | $329.6 | $215.9 | $197.5 | $174.9 |
| Total assets | 630.2 | 690.0 | 725.9 | 800.6 | 796.4 |
| Partners' equity | 362.8 | 401.0 | 416.4 | 479.1 | 492.5 |



## RISK FACTORS

You should carefully consider the risks described below in addition to the other information set forth in this prospectus before making an investment in the notes.

### RISKS RELATING TO THE NOTES

#### OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH, MAKE US VULNERABLE TO ADVERSE ECONOMIC AND INDUSTRY CONDITIONS AND PREVENT US FROM FULFILLING OUR OBLIGATIONS UNDER THE NOTES

We have a significant amount of indebtedness. The following chart sets forth important credit information, assuming we had completed the Transactions as of the date specified below and applied the proceeds as described in the unaudited pro forma consolidated financial information contained in this prospectus:

| | PRO FORMA JUNE 30, 2000 (UNAUDITED, DOLLARS IN MILLIONS) |
|---|---|
| Total indebtedness | $1,125.0 |
| Shareholders' equity | 314.4 |

Our substantial indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage relative to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Furthermore, failing to comply with those covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

#### DESPITE THE CURRENTLY EXPECTED LEVELS OF INDEBTEDNESS, WE STILL MAY BE ABLE TO INCUR SUBSTANTIALLY MORE DEBT. THIS COULD FURTHER EXACERBATE THE EFFECT OF ANY OF THE CONSEQUENCES DESCRIBED ABOVE

We may be able to incur substantial additional indebtedness in the future, subject to the terms of the indentures governing the notes and the Senior Credit Facilities. Our Senior Credit Facilities permit us to borrow up to approximately an additional $270.0 million, net of issued letters of credit, under the revolving credit facility portion of the Senior Credit Facilities. All of these borrowings will be secured by substantially all of the assets of our domestic subsidiaries and pledges of the stock of our subsidiaries. The addition of new debt to our current debt levels could intensify the leverage-related risks that we now face. See "Description of Certain Indebtedness" and "Description of the Notes."



YOUR RIGHT TO RECEIVE PAYMENTS ON THE NOTES RANKS BEHIND OUR AND FLOWSERVE FINANCE'S SENIOR INDEBTEDNESS AND POSSIBLY ALL OF OUR AND FLOWSERVE FINANCE'S FUTURE BORROWINGS. FURTHER, THE GUARANTIES OF THE NOTES RANK BEHIND ALL OF THE GUARANTORS' EXISTING SENIOR INDEBTEDNESS AND POSSIBLY ALL OF THEIR FUTURE BORROWINGS

The notes will be unsecured senior subordinated obligations of Flowserve (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes). Therefore, your right to receive payments on these notes will rank behind Flowserve's and Flowserve Finance's respective existing senior debt (including borrowings and guarantees under the Senior Credit Facilities) and any future senior debt Flowserve or Flowserve Finance may incur. Further, the guaranties of the notes by the guarantors (including Flowserve with respect to its guaranty of the euro notes) will rank behind those guarantors' existing senior debt and all of their future senior debt. As a result, upon any distribution to Flowserve's, Flowserve Finance's or the guarantors' creditors, as applicable, in a bankruptcy, liquidation or reorganization or similar proceeding or upon the distribution of Flowserve's, Flowserve Finance's or the guarantors' property, the holders of the senior debt of these entities, including the lenders under the Senior Credit Facilities, will be entitled to be paid in full in cash before any payment may be made with respect to the notes or the guaranties.

In addition, all payments on the notes and the guaranties will be blocked in the event of a payment default on certain of our senior indebtedness (including borrowings under the Senior Credit Facilities) and may be blocked for specified periods in the event of certain non-payment defaults on senior debt.

In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to the guarantors, holders of the notes will participate with other creditors in the assets remaining after the guarantors have paid all of their senior indebtedness. Similarly, in the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to Flowserve (in the case of the dollar notes) or Flowserve Finance (in the case of the euro notes), holders of the notes will participate with other creditors in the assets remaining after Flowserve (in the case of the dollar notes) or Flowserve Finance (in the case of the euro notes) have paid all of their senior indebtedness. However, because the indentures governing the notes requires that amounts otherwise payable to holders of the notes in a bankruptcy or similar proceeding be paid to holders of senior indebtedness instead, holders of the notes may receive ratably less than holders of trade payables in any such proceeding. In any of these cases, Flowserve, Flowserve Finance and the guarantors may not have sufficient funds to pay all of their respective creditors and holders of the notes may receive ratably less than holders of senior indebtedness.

Assuming we had completed the Transactions and used the proceeds from these offerings as described in this prospectus, in each case on June 30, 2000, the notes and the guaranties would have been subordinated to approximately $750.0 million of senior indebtedness (consisting of debt (and guaranties thereof) outstanding under the term loan facilities portion of the Senior Credit Facilities) and approximately $270.0 million would have been available for additional borrowings under our revolving credit facility, all of which would be senior indebtedness, if borrowed. All of our subsidiaries that guarantee the notes are also guarantors of our Senior Credit Facilities. Obligations under such guaranties constitute senior indebtedness.

THE SENIOR CREDIT FACILITIES AND THE INDENTURES GOVERNING THE DOLLAR NOTES AND THE EURO NOTES CONTAIN VARIOUS COVENANTS WHICH LIMIT MANAGEMENT'S DISCRETION IN THE OPERATION OF OUR BUSINESS

The Senior Credit Facilities and the indentures governing the dollar notes and the euro notes contain various provisions that limit management's discretion in operating our (including our subsidiaries') businesses by restricting their ability to:

- incur additional debt;

- pay dividends and make other distributions;

- prepay subordinated debt, make investments and other restricted payments;

- enter into sale and leaseback transactions;

- create liens;



- sell assets; and

- enter into transactions with affiliates.

The indenture governing the euro notes also restricts Flowserve Finance from engaging in business activities other than those incident to the issuance and payment of the euro notes, the issuance of guaranties of the Senior Credit Facilities and the dollar notes and the lending of intercompany loans to other Flowserve subsidiaries, and requires that Flowserve Finance remain a wholly owned subsidiary of Flowserve.

In addition, the Senior Credit Facilities require us to maintain certain financial ratios, which will become more restrictive over time.

If we fail to comply with the restrictions contained in the Senior Credit Facilities, the indentures governing the dollar notes and the euro notes or any other subsequent financing agreements, a default may occur. This default may allow some creditors, if their respective agreements so provide, to accelerate payments owed on such debt as well as any other indebtedness as to which a cross-acceleration or cross-default provision applies. In addition, our lenders may be able to terminate any commitments they had made to supply us with further funds. See "Description of Certain Indebtedness" and "Description of the Notes."

FLOWSERVE FINANCE IS A FINANCE VEHICLE WITH LIMITED ASSETS, NO OPERATIONS OF ITS OWN AND A LIMITED SOURCE OF FUNDS FROM WHICH TO REPAY THE EURO NOTES

Flowserve Finance is a finance vehicle which has limited assets and no operations of its own. Following the closing of the offering of the euro notes, Flowserve Finance loaned all of the proceeds of that offering to our European operating subsidiaries, which applied those proceeds, to purchase all of the capital stock of IDP's operating subsidiaries in Germany and Italy. Flowserve Finance's assets consist solely of the intercompany notes entered into by our European operating subsidiaries evidencing their obligation to repay the loans made to them by Flowserve Finance from time to time. Flowserve Finance's only source of funds will be payments of interest and principal due to it by those subsidiaries pursuant to such intercompany notes. The ability of Flowserve Finance to make payments of principal and interest on the euro notes is dependent on the ability of the European operating subsidiaries that are obligors on the intercompany notes to make payments under those notes. In the event of a default in payment by those European operating subsidiaries under the intercompany notes, absent a loan or capital contribution from us or one of our other subsidiaries, Flowserve Finance would be unable to make payments under the euro notes.

CERTAIN SUBSIDIARIES ARE NOT INCLUDED AS SUBSIDIARY GUARANTORS

The guarantors of the notes (other than Flowserve and Flowserve International in the case of the euro notes and Flowserve Finance and Flowserve International in the case of the dollar notes) include only material domestic subsidiaries of Flowserve. Additionally, immediately after the consummation of the closing of the IDP acquisition, IDP and its material domestic subsidiaries became subsidiary guarantors of the dollar notes and the euro notes. However, the historical consolidated financial information (including the consolidated financial statements of Flowserve, Invatec and IDP included elsewhere in this prospectus) and the pro forma consolidated financial information included in

this prospectus are presented on a consolidated basis, including both domestic and foreign subsidiaries of Flowserve, Invatec and IDP. The aggregate net sales, EBITDA and total assets for the twelve months ended December 31, 1999 of Flowserve's subsidiaries which are not subsidiary guarantors were $472.6 million, $63.4 million and $36.1 million, respectively.

Because a substantial portion of both Flowserve's operations and IDP's operations is conducted by foreign subsidiaries, our cash flow and our ability to service debt, including our and the subsidiary guarantors' ability to pay the interest on and principal of the dollar notes when due and the subsidiary guarantors' ability and our ability under our guaranty to pay the interest on and principal of the euro notes when due, are dependent to a significant extent upon interest payments, cash dividends and distributions or



other transfers from our foreign subsidiaries. In addition, any payment of interest, dividends, distributions, loans or advances by our foreign subsidiaries to us, to Flowserve Finance and to the subsidiary guarantors, as applicable, could be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdiction in which those foreign subsidiaries operate. Moreover, payments to us, Flowserve Finance and the subsidiary guarantors by the foreign subsidiaries will be contingent upon these subsidiaries' earnings.

Our foreign subsidiaries are separate and distinct legal entities and (except to the extent of Flowserve Finance's guaranty of the dollar notes and Flowserve International's guaranties of the dollar notes and the euro notes) have no obligation, contingent or otherwise, to pay any amounts due pursuant to the dollar notes, the euro notes, our guaranty or the subsidiary guaranties or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the subsidiary guarantors have to receive any assets of any of the foreign subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of dollar notes or euro notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors and holders of debt of that subsidiary. See Flowserve and IDP unaudited consolidated financial statements contained elsewhere in this prospectus.

WE MAY NOT HAVE THE ABILITY TO RAISE THE FUNDS NECESSARY TO FINANCE ANY CHANGE OF CONTROL OFFER REQUIRED BY THE INDENTURES GOVERNING THE NOTES

If we undergo a change of control (as defined in the indentures governing the notes) we may need to refinance large amounts of our debt, including the notes and borrowings under the Senior Credit Facilities. If a change of control occurs, we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) must offer to buy back the notes for a price equal to 101% of the principal amount of the notes, plus any accrued and unpaid interest. We cannot assure you that there will be sufficient funds available for us (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) to make any required repurchases of the notes upon a change of control. In addition, our Senior Credit Facilities will prohibit us (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) from repurchasing the notes until we first repay the Senior Credit Facilities in full. If we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) fail to repurchase the notes in that circumstance, we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) will go into default under both the indenture governing the applicable notes and the Senior Credit Facilities. Any future debt which we incur may also contain restrictions on repayment upon a change of control. If any change of control occurs, we cannot assure you that we (in the case of the dollar notes) and Flowserve Finance (in the case of the euro notes) will have sufficient funds to satisfy all of our debt obligations. The buyback requirements may also delay or make it harder for others to effect a change of control. However, certain other corporate events, such as a leveraged recapitalization that would increase our level of indebtedness, would not constitute a change of control under the indentures governing the notes. See "Description of Certain Indebtedness" and "Description of the Notes -- Change of Control."

FEDERAL OR STATE LAWS ALLOW COURTS, UNDER SPECIFIC CIRCUMSTANCES, TO VOID DEBTS, INCLUDING GUARANTIES, AND REQUIRE HOLDERS OF NOTES TO RETURN PAYMENTS RECEIVED

FROM US AND THE DOMESTIC GUARANTORS

If a bankruptcy proceeding or lawsuit were to be initiated by unpaid creditors, the dollar notes and the guaranties of the dollar notes and the euro notes by our domestic subsidiaries could come under review for federal or state fraudulent transfer violations. Under federal bankruptcy law and comparable provisions of state fraudulent transfer laws, obligations under the dollar notes or guaranties of the dollar notes or euro notes could be voided, or claims in respect of the dollar note or guaranties of the dollar notes or euro notes could be subordinated to all other debts of the debtor or guarantor if, among other things, the debtor or guarantor at the time it incurred the indebtedness evidenced by such notes or guaranties:

- received less than reasonably equivalent value or fair consideration for the incurrence of such debt or guaranty; and



- one of the following applies:

  - it was insolvent or rendered insolvent by reason of such incurrence;

  - it was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or

  - it intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that debtor or guarantor under the dollar notes or guaranties of the dollar notes or euro notes could be voided and required to be returned to the debtor or guarantor, as the case may be, or to a fund for the benefit of the creditors of the debtor or guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a debtor or guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, were greater than the fair salable value of all of its assets;

- if the present fair salable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

DUTCH INSOLVENCY LAWS MAY ADVERSELY AFFECT A RECOVERY BY THE HOLDERS OF THE EURO NOTES

Flowserve Finance, the issuer of the euro notes, is a Dutch company. Dutch insolvency laws differ significantly from insolvency proceedings in the United States and may make it more difficult for holders of the euro notes to effect a restructuring of Flowserve Finance or to recover the amount they would have recovered in a liquidation or bankruptcy proceeding in the United States. There are two primary insolvency regimes under Dutch law: the first, moratorium of payment (surseance van betaling), is intended to facilitate the reorganization of a debtor's debts and enable the debtor to continue as a going concern. The second, bankruptcy (faillissement), is primarily designed to liquidate and distribute the assets of a debtor to its creditors.

Should Flowserve Finance not comply with certain Netherlands rules issued pursuant to the Wet toezicht kredietwezen 1992 (the 1992 Act on the supervision of the credit system), then instead of the faillissement and surseance van betaling rules mentioned above, the specific insolvency regime of this act, the noodregeling (emergency regulation), will apply.

Upon commencement of moratorium of payment proceedings, the court will grant a provisional moratorium. The definitive moratorium will generally be granted upon the approval of a qualified majority of the unsecured creditors. In both cases, certain creditors will be precluded from attempting to recover their claims from the assets of the debtor. This moratorium is subject to exceptions,

the most important of which excludes certain secured and certain preferential creditors (such as tax and social security authorities) from the protection of the moratorium. Unlike Chapter 11 proceedings under U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims, during Dutch moratorium of payment proceedings, certain secured creditors may proceed against the assets that secure their claims to satisfy their claims. A recovery under Dutch law, therefore, could involve a sale of the assets of the debtor in a manner that does not reflect the going concern value of the debtor. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the euro notes to effect a restructuring of Flowserve Finance and could reduce the recovery in a Dutch insolvency proceeding.



In connection with Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors on the basis of the relative claims of those creditors, and certain parties (such as secured creditors) will have special rights that may adversely affect the interests of holders of the euro notes. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of holders of euro notes which were not due and payable by their terms on the date of a bankruptcy of Flowserve Finance will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the receiver of Flowserve Finance to be verified by the receiver. "Verification" under Dutch law means that the receiver determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings. The valuation of claims that otherwise would not have been payable at the time of the bankruptcy proceedings may be based on a net present value analysis. Creditors that wish to dispute the valuation of their claims by the receiver will need to commence a court proceeding. These verification procedures could cause holders of euro notes to recover less than the principal amount of their notes or less than they could recover in a U.S. liquidation. Such verification procedures could also cause payments to the holders of euro notes to be delayed compared with holders of undisputed claims.

YOUR RIGHTS UNDER THE GUARANTY BY ONE OF OUR ENGLISH SUBSIDIARIES MAY BE IMPAIRED UNDER INSOLVENCY LAWS IN ENGLAND

One of the guarantors of the dollar notes and the euro notes, Flowserve International, is incorporated in England. Any insolvency proceedings by or against Flowserve International would likely be based on English insolvency laws. The procedural and substantive provisions of English insolvency laws generally are more favorable to secured creditors than comparable provisions of U.S. law and afford debtors and unsecured creditors only limited protection from secured creditors. Due to the nature of English insolvency laws and the unsecured nature of the claims of holders of the notes against Flowserve International, the ability of holders of the notes to protect their interests will be more limited than would be the case under U.S. bankruptcy laws. In addition, under English insolvency law, in the event of a winding up of Flowserve International, its liabilities under its guaranty will be paid only after certain of its other debts which are entitled to priority under English law, such as money owed to the U.K. Inland Revenue for income tax deducted at source, value added tax and certain other taxes and duties owed to the U.K. Customs and Excise, social security contributions, occupational pension scheme contributions and salaries owed to employees. In addition, in any insolvency proceedings by or against Flowserve International, its guaranty will rank behind all of its current and future senior indebtedness.

Under English insolvency law, the liquidator or administrator of a subsidiary guarantor incorporated in England may, among other things, apply to the court under Section 238 of the U.K. Insolvency Act 1986 to rescind the issuance of its guaranty, if that subsidiary guarantor was unable to pay its debts (within the meaning of Section 123 of the U.K. Insolvency Act 1986) at the time of the issuance of its guaranty or became unable to pay its debts (within the meaning of that section) in consequence thereof and there occurs in relation to that subsidiary the onset of insolvency (as defined in Section 240 of the U.K. Insolvency Act 1986) within two years after the guaranty is issued. The guaranty might be subject to such recision (or other competent order of a court under Section 241 of the U.K. Insolvency Act 1986) if it involved a gift by the subsidiary guarantor or if the subsidiary guarantor received consideration of significantly less value than the consideration given by it. A court, however, cannot make an order under Section 238 if it is satisfied that the subsidiary

guarantor entered into the transaction in good faith for the purpose of carrying on its business and that at the time it did so that there were reasonable grounds for believing that the transaction would benefit such guarantor.

We believe that the guaranty to be issued by Flowserve International will not be provided in a transaction at less than fair value or for inadequate consideration and that the guaranty will be provided in good faith for the purposes of carrying on the business of the guarantor and that there are reasonable grounds for believing that the transaction will benefit that guarantor. We cannot assure you, however, that a person entitled to apply to a court pursuant to Section 238 or 242 or the relevant English court would concur with our analysis.



In addition, under English insolvency law any debt payable in the liquidation of a company in a currency other than pounds sterling (such as euros in the case of the euro notes and dollars in the case of the dollar notes) must be converted into pounds sterling in the case of a company incorporated in England, at the "official exchange rate" prevailing on the date when the debtor went into liquidation for the purpose of proving in the liquidation. The "official exchange rate" for these purposes is the middle market rate at the Bank of England as published for the date in question or, if no such rate is published, the court determines the rate. Accordingly, in the event of an insolvency of Flowserve International, holders of notes may be subject to exchange rate risk between the date that Flowserve International went into liquidation and the date of receipt of any amounts to which the holders of notes may become entitled.

### WE CANNOT ASSURE YOU THAT AN ACTIVE TRADING MARKET WILL DEVELOP FOR THE NOTES

Prior to this exchange offer, there has been no public market for the notes. We do not intend to apply for listing of the dollar notes on any securities exchange or for quotation through the National Association of Securities Dealers Automated Quotation System. We have made application to list the euro exchange notes on the Luxembourg Stock Exchange in accordance with the rules of the Luxembourg Stock Exchange. Both the liquidity and the market price quoted for the dollar notes and the euro notes may be adversely affected by changes in the overall market for high yield securities and by changes in our financial performance or prospects, or in the prospects for companies in our industry generally. As a result, we cannot assure you that an active or stable trading market will develop for the notes.

### CONSEQUENCES OF FAILURE TO EXCHANGE YOUR OUTSTANDING NOTES FOR EXCHANGE NOTES

If you do not tender your outstanding notes to be exchanged in this exchange offer, your notes will remain restricted securities and will be subject to certain transfer restrictions. As restricted securities, your outstanding notes:

- may be resold only if registered pursuant to the Securities Act of 1933, if an exemption from registration is available thereunder, or if neither such registration nor such exemption is required by law; and

- shall bear a legend restricting transfer in the absence of registration or an exemption therefrom.

In addition, a holder of outstanding notes who desires to sell or otherwise dispose of all or any part of its outstanding notes under an exemption from registration under the Securities Act of 1933, if requested by us, must deliver to us an opinion of independent counsel experienced in Securities Act matters, reasonably satisfactory in form and substance to us, that such exemption is available.

## RISKS RELATING TO OUR BUSINESS

### WE MAY NOT BE ABLE TO INTEGRATE THE BUSINESS OF IDP AND INVATEC

Our future success will depend in part on our ability to effectively integrate the businesses of IDP and Invatec into Flowserve's operations. The combination of Flowserve, Invatec and IDP involves the integration of companies that have previously operated independently. The integration process may be disruptive to the businesses and may cause an interruption of, or a loss of

momentum in, the businesses as a result of a number of obstacles such as:

- loss of key employees or customers;

- failure to maintain the quality of customer service that such companies have historically provided;

- the need to coordinate geographically diverse organizations;



- retooling and reprogramming of equipment; and

- the resulting diversion of management's attention from our day-to-day business and the need to hire additional management personnel to address integration obstacles.

If we are not successful in this combination, if the combination takes longer than anticipated, or if our integrated product and service offering fails to achieve market acceptance, our business could be adversely affected.

WE MAY NOT BE ABLE TO REALIZE THE ANTICIPATED COST SAVINGS, SYNERGIES OR REVENUE ENHANCEMENTS FROM COMBINING FLOWSERVE, INVATEC AND IDP AND WE WILL INCUR SIGNIFICANT CASH INTEGRATION COSTS TO ACHIEVE THESE COST SAVINGS

Even if we are able to integrate the operations of the companies successfully, we cannot assure you that we will realize the cost savings, synergies or revenue enhancements that we anticipate from such integration or that we will realize such benefits within the time frame that we currently expect.

- Whether we can effectively eliminate redundant administrative overhead and overlapping sales personnel, rationalize manufacturing capacity and shift production to more economic facilities is difficult to predict. Accordingly, the amount and timing of the resulting cost savings are inherently difficult to estimate.

- Any cost savings and other synergies from the transactions may be offset by costs incurred in integrating the companies.

- The cost savings and other synergies may also be offset by increases in other expenses, by operating losses or by problems unrelated to the transactions.

- Labor cost savings depend on the avoidance of labor disruptions in connection with the integration of the businesses.

- We will incur significant cash integration costs to achieve these cost savings.

WE HAVE LIMITED INFORMATION CONCERNING IDP AND INVATEC, AND THEY MAY HAVE LIABILITIES OR OBLIGATIONS THAT ARE NOT REFLECTED IN THEIR HISTORICAL FINANCIAL STATEMENTS

In connection with the acquisitions of Invatec and IDP, we conducted a review of information available to us regarding Invatec and IDP; however, we have been unable to perform a complete review of the past activities and financial performance of the two companies. Prior to our acquisition of their businesses, Invatec and IDP may have incurred contractual, financial or other obligations and liabilities that may impact us in the future and that are not currently reflected in their historical financial statements or otherwise known to us. In addition, with respect to the IDP acquisition we have received limited warranties with respect to these obligations and liabilities from Ingersoll-Rand. Any such obligation or liability could have a material adverse effect on our business, financial condition and results of operations.

IF ACTUAL RESULTS DIFFER FROM THE ESTIMATES UNDERLYING SOME OF THE COST SAVINGS INFORMATION, OUR RESULTS MAY BE LESS FAVORABLE THAN ANTICIPATED

Certain information contained within this prospectus is based on anticipated cost savings that our management believes are reasonable, including cost savings resulting from plant closures and certain cost savings anticipated in connection with the Transactions and the Invatec acquisition. We cannot

assure you that the anticipated cost savings will be achieved. If our savings are less than our estimates or adversely affect our revenues or operations, our results will be less than we anticipate and less than the amounts set forth in this prospectus.



ALTHOUGH WE HAVE ENTERED INTO A CONSENT DECREE WITH THE U.S. DEPARTMENT OF JUSTICE ADDRESSING ITS ANTITRUST CONCERNS RELATED TO THE IDP ACQUISITION, WE MAY NOT OBTAIN A FINAL COURT ORDER APPROVING THE IDP ACQUISITION

In connection with the IDP acquisition, we entered into a consent decree with the U.S. Department of Justice to resolve its antitrust concerns related to the acquisition. This consent decree provides for a post-closing divestiture of certain product lines, a manufacturing facility and two service and repair centers. The consent decree was filed with the United States District Court for the District of Columbia on July 28, 2000. The provisions of the consent decree are described in more detail in "Business -- Regulatory Divestitures."

On September 13, 2000, after the filing of the consent decree, the Department of Justice published the consent decree in the Federal Register. Under the Antitrust Procedures and Penalties Act, the general public will have 60 days from the date of publication in the Federal Register to comment on the adequacy of the consent decree. The federal district court will only issue a final order approving the IDP acquisition after the public has had the opportunity to comment on the adequacy of the consent decree, the Department of Justice has responded to such comments, and the federal district court has determined that the consent decree is in the public interest. We cannot assure you that we will obtain the final order from the federal district court approving the acquisition. The issuance of the final order by the federal district court is not a condition to the closing of the acquisition, although the failure of the court to issue such a final order could result in the restructuring or unwinding of the acquisition.

ECONOMIC, POLITICAL AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS COULD ADVERSELY AFFECT OUR BUSINESS

Since we sell our products worldwide, our business is subject to risks associated with doing business internationally. Our sales outside North America, as a percentage of our total sales, was 45% in 1999. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in foreign currency exchange rates;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property; and
- unexpected changes in regulatory requirements.

OUR OPERATING RESULTS COULD BE HARMED DURING ECONOMIC DOWNTURNS

The businesses of most of our industrial customers, particularly refineries, chemical companies and power plants, are, to varying degrees, cyclical and have historically experienced periodic downturns. Margins in those industries are highly sensitive to demand cycles, and our customers in those industries historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. For example, due to the simultaneous decline in oil and chemical prices in 1998 and 1999, many of our key customers significantly reduced their capital spending, which resulted in declines in revenues and EBITDA during those years. These industry downturns have been characterized by diminished product demand, excess manufacturing capacity and subsequent accelerated erosion of average selling prices in the flow control industry. Therefore, any significant downturn in our customers'

markets or in general economic conditions could result in a reduction in demand for our products and services and could harm our business.



WE FACE INTENSE COMPETITION

We encounter intense competition in all areas of our business. Additionally, customers for our products are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventory. To remain competitive, we will need to invest continuously in manufacturing, marketing, customer service and support and our distribution networks. We anticipate that we may have to adjust the prices of some of our products to stay competitive. We cannot assure you that we will have sufficient resources to continue to make such investments or that we will maintain our competitive position.

ENVIRONMENTAL COMPLIANCE COSTS AND LIABILITIES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION

Our operations and properties are subject to increasingly stringent laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and workplace safety. Such laws and regulations can impose substantial fines and sanctions for violations and require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We must conform our operations and properties to these laws, and adapt to regulatory requirements in all countries as these requirements change. In connection with the IDP acquisition, we believe that we may be required to incur costs to bring the former IDP properties into compliance with applicable requirements.

We use and generate hazardous substances and wastes in our manufacturing and foundry operations. In addition, many of our current and former properties are or have been used for industrial purposes. Accordingly, we are conducting investigation and remediation activities at several on-site and off-site locations. We also may be subject to potentially material liabilities relating to the investigation and clean-up of contaminated properties and to claims alleging personal injury.

We have experienced, and expect to continue to experience, operating costs to comply with environmental laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition or results of operations.

OUR BUSINESS COULD SUFFER IF WE ARE UNSUCCESSFUL IN NEGOTIATING NEW COLLECTIVE BARGAINING AGREEMENTS

As of December 31, 1999, we had approximately 12,000 employees, of whom approximately 18% are represented by unions. Our operations in the following countries are unionized: Argentina, Austria, Belgium, Brazil, Canada, France, Germany, Italy, Mexico, The Netherlands, Spain and the United Kingdom. Each of our material collective bargaining agreements with such unions expires from November 2000 to December 2002. Although we believe that our relations with our employees are good and we have not experienced any strikes or work stoppages since the strike at IDP's Phillipsburg facilities in the mid 1990s, we cannot assure you that we will be successful in negotiating new collective bargaining agreements, that such negotiations will not result in significant increases in the cost of labor or that a breakdown in such negotiations will not result in the disruption of our operations. In addition, our planned closures of certain facilities may create the risk of strikes or work stoppages at those and other facilities.

THIRD PARTIES MAY INFRINGE OUR INTELLECTUAL PROPERTY, AND WE MAY EXPEND SIGNIFICANT RESOURCES ENFORCING OUR RIGHTS OR SUFFER COMPETITIVE INJURY

Our success depends in part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our

competitive position could suffer, which could harm our operating results. We may be required to spend significant resources to monitor and police our intellectual property rights.





OUR SUCCESS WILL CONTINUE TO DEPEND TO A SIGNIFICANT EXTENT ON OUR EXECUTIVES AND OTHER KEY PERSONNEL

Our future success depends to a significant degree on the skills, experience and efforts of our senior management and other key personnel. The loss of the services of any of these individuals could adversely affect our ability to implement our business strategy, including integrating IDP and Invatec, and our results of operations.

WE ARE DEPENDENT ON THE AVAILABILITY OF RAW MATERIALS

We require substantial amounts of raw materials and substantially all raw materials we require are purchased from outside sources. The availability and prices of raw materials may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and worldwide price levels. Any change in the supply of, or price for, these raw materials could materially affect our operating results.

WE ARE SUBJECT TO THE EFFECTS OF FLUCTUATIONS IN FOREIGN EXCHANGE RATES

We are exposed to fluctuations in foreign currencies as a significant portion of our revenue, and certain of our costs, assets and liabilities, are denominated in currencies other than U.S. dollars. Principal and interest on the dollar notes will be payable in U.S. dollars. Our ability to pay interest and principal on the dollar notes when due is dependent on the then current exchange rates between U.S. dollars, on the one hand, and the euro and other European as well as Asian currencies, on the other hand, which rates are and will be subject to fluctuation. Approximately 45% of our revenue during 1999 was from sales outside of North America. Our share of revenue in non-dollar denominated currencies may continue to increase in future periods. We can offer no assurance, however, that exchange rate fluctuations will not have a material adverse effect on our results of operations and financial condition and therefore on our ability to make principal and interest payments on our indebtedness, including the dollar notes, when due.

WE CANNOT GUARANTEE THAT JUDGMENTS OBTAINED IN A U.S. COURT WILL BE ENFORCEABLE AGAINST FLOWSERVE FINANCE

All of Flowserve Finance's assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon Flowserve Finance. In addition, it may not be possible for investors to enforce judgments obtained in a U.S. court against its assets, including in order to foreclose upon such assets. See "Service of Process and Enforceability of Civil Liabilities."





## SOURCES AND USES OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes offered hereby. In consideration for issuing the notes contemplated by this prospectus, we will receive in exchange the outstanding notes in like principal amount. The outstanding notes surrendered in exchange for the exchange notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the exchange notes will not result in any change in our indebtedness.

The following table sets forth the sources and uses of funds for the IDP acquisition as of June 30, 2000 on a pro forma basis, as though the Transactions had occurred at that date:

(DOLLARS IN MILLIONS)

| | |
|---|---|
| SOURCES: | |
| Cash and Cash Equivalents..... | $ 22.0 |
| Term Loan Facilities(1)..... | 750.0 |
| Senior Subordinated Dollar Notes(3)..... | 285.9 |
| Senior Subordinated Euro Notes(3)(4)..... | 89.1 |
| Total Sources..... | $1,147.0 |
| USES: | |
| Purchase of IDP..... | $ 775.0 |
| Refinance Existing Flowserve Debt(2)..... | 315.4 |
| Transaction Fees and Expenses..... | 56.6 |
| Total Uses..... | $1,147.0 |

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(1) Includes two facilities, Term Loan A and Term Loan B, which we collectively refer to as the Term Loan Facilities. The Term Loan A facility of $275.0 million will mature in six years and the Term Loan B facility of $475.0 million will mature in eight years.

(2) Includes debt incurred in connection with the Invatec acquisition, which closed on January 13, 2000.

(3) Reflects issuance of the senior subordinated dollar notes of $290.0 million and senior subordinated euro notes of E100.0 million at 98.586% of face value.

(4) Assuming a conversion rate of euro into U.S. dollars of E0.9033 to $1.00, which was the rate in effect on August 3, 2000.



## THE EXCHANGE OFFER

### GENERAL

In connection with the exchange offer, Flowserve and the guarantors of the outstanding dollar notes entered into a registration rights agreement with Credit Suisse First Boston Corporation, Bank of America Securities LLC, ABN AMRO Incorporated, Banc One Capital Markets, Inc. (the "Dollar Notes Initial Purchasers") relating to the outstanding dollar notes and Flowserve Finance and the guarantors of the outstanding euro notes entered into a registration rights agreement with Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO Bank N.V. and First Chicago Limited (the "Euro Notes Initial Purchasers," and together with the Dollar Notes Initial Purchasers, the "Initial Purchasers") relating to the outstanding euro notes (the "Registration Rights Agreements"). Under the Registration Rights Agreements, Flowserve and Flowserve Finance agreed to file within 90 days of the date of the original issuance of the outstanding notes a registration statement (the "Exchange Offer Registration Statement") of which this prospectus is a part with respect to a registered offer to exchange the outstanding notes for the notes with terms identical in all material respects to the outstanding notes (the "Exchange Offer"). We further agreed to use our reasonable best efforts to (i) cause the Exchange Offer Registration Statement to become effective and commence the Exchange Offer on or prior to the 150th day after the Issue Date, (ii) keep the Exchange Offer open for 30 days (or longer if required by applicable law) (the last day of such period, the "Expiration Date") and (iii) exchange the notes to be issued in the Exchange Offer for all outstanding notes validly tendered and not withdrawn pursuant to the Exchange Offer on or prior to the fifth day following the Expiration Date.

Upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept all outstanding notes validly tendered prior to 12:00 p.m., New York City time (5:00 p.m. London time) on , 2000 (the "Expiration Date"). Flowserve will issue $1,000 principal amount of exchange notes in exchange for each $1,000 principal amount

of outstanding dollar notes accepted in the exchange offer. Flowserve Finance will issue E1,000 principal amount of exchange notes in exchange for each E1,000 principal amount of outstanding euro notes accepted in the Exchange Offer. Holders may tender some or all of their outstanding dollar notes and outstanding euro notes pursuant to the Exchange Offer in denominations of $1,000 and E1,000, respectively and integral multiples thereof.

Based on no-action letters issued by the staff of the Securities and Exchange Commission (the "SEC") to third parties, we believe that the notes issued pursuant to the Exchange Offer in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by any holder thereof under U.S. federal securities laws (other than (i) a broker-dealer who purchased such outstanding notes directly from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act of 1933, as amended (the "Securities Act") or (ii) a person that is an "affiliate" of ours within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that the holder is acquiring the notes issued in the Exchange Offer in its ordinary course of business and is not participating and does not intend to participate, and has no arrangements or understanding with any person to participate, in the distribution of the notes issued in the Exchange Offer. Holders of outstanding notes wishing to accept the exchange offer must represent to us that such conditions have been met.

Each broker-dealer that receives notes in exchange for outstanding notes held for its own account, as a result of market-making or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, such broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. The prospectus, as it may be amended or supplemented from time to time, may be used by such broker-dealer in connection with resales of notes received in exchange for outstanding notes. We have agreed that, for a period of 180 days after the Expiration Date, we will make this prospectus and any amendment or supplement to this prospectus available to any such broker-dealer for use in connection with any such resale. See "Plan of Distribution."



As of the date of this prospectus, $290 million aggregate principal amount of the outstanding dollar notes and E100 million aggregate principal amount of the outstanding euro notes are outstanding. In connection with the issuance of the outstanding notes, we arranged for the outstanding notes initially purchased by Qualified Institutional Buyers and certain eligible persons in "offshore transactions" (within the meaning of Regulation S under the Securities Act) pursuant to Regulation S under the Securities Act of 1933 to be issued and transferable in book-entry form through the facilities of, with respect to the dollar notes, the Depositary Trust Company ("DTC") and, with respect to the euro notes, Euroclear or Clearstream, Luxembourg, acting as depositary for the outstanding euro notes. The dollar notes and the euro notes to be issued in the Exchange Offer will also be issuable and transferable in book-entry form through DTC or Euroclear or Clearstream, Luxembourg, as the case may be, respectively.

This prospectus, together with the accompanying letter of transmittal, is being sent to all registered holders as of , 2000 (the "Record Date").

We will be deemed to have accepted validly tendered outstanding notes when, as and if we have given oral or written notice thereof to the Exchange Agent. See "-- Exchange Agent." The Exchange Agent will act as agent for the tendering holders of outstanding notes for the purpose of receiving notes to be issued in the Exchange Offer from us and delivering such notes to such holders.

If any tendered outstanding notes are not accepted for exchange because of an invalid tender or the occurrence of certain other events set forth herein, certificates for any such unaccepted outstanding notes will be returned, without expenses, to the tendering holder thereof as promptly as practicable after the Expiration Date.

Holders of outstanding notes who tender in the Exchange Offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes pursuant to the Exchange Offer. We will pay all charges and expenses, other than certain applicable taxes, in connection with the Exchange

Offer. See "-- Fees and Expenses."

EXPIRATION DATE; EXTENSIONS; AMENDMENTS

The term "Expiration Date" shall mean , 2000 unless we, in our sole discretion, extend the Exchange Offer, in which case the term "Expiration Date" shall mean the latest date to which the Exchange Offer is extended.

In order to extend the Expiration Date, we will notify the Exchange Agent of any extension by oral or written notice and will mail to the record holders of outstanding notes an announcement thereof, each prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Such announcement may state that we are extending the Exchange Offer for a specified period of time.

We reserve the right (i) to delay acceptance of any outstanding notes, to extend the Exchange Offer or to terminate the Exchange Offer and to refuse to accept outstanding notes not previously accepted, if any of the conditions set forth herein under "-- Termination" shall have occurred and shall not have been waived by us (if permitted to be waived by us), by giving oral or written notice of such delay, extension or termination to the Exchange Agent, and (ii) to amend the terms of the Exchange Offer in any manner deemed by us to be advantageous to the holders of the outstanding notes. Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof. If the Exchange Offer is amended in a manner that we determine to constitute a material change, we will promptly disclose such amendment in a manner reasonably calculated to inform the holders of the outstanding notes of such amendment.

Without limiting the manner by which we may choose to make public announcements of any delay in acceptance, extension, termination or amendment of the Exchange Offer, we will have no obligation to publish, advertise, or otherwise communicate any such public announcement, other than making a timely release to a financial news service.



INTEREST ON THE NOTES TO BE ISSUED IN THE EXCHANGE OFFER

The notes to be issued in the Exchange Offer will bear interest from August 8, 2000, payable semiannually in arrears on February 15 and August 15 of each year, commencing on February 15, 2001, at the rate of 12 1/4% per annum, in the case of both the dollar notes and the euro notes. Holders of outstanding notes whose outstanding notes are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest on the outstanding notes accrued from August 8, 2000 until the date of the issuance of the notes to be issued in the Exchange Offer. Consequently, holders who exchange their outstanding notes for notes to be issued in the Exchange Offer will receive the same interest payment on February 15, 2001 (the first interest payment date with respect to the outstanding notes and the notes to be issued in the Exchange Offer) that they would have received had they not accepted the Exchange Offer.

PROCEDURES FOR TENDERING

Procedures for Tendering Outstanding Dollar Notes

To tender outstanding dollar notes in the Exchange Offer, a holder must:

- complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal; have the signature on the letter of transmittal guaranteed if the letter of transmittal so requires; and mail or otherwise deliver the letter of transmittal or facsimile to the Exchange Agent prior to 5:00 p.m., New York City time on the Expiration Date; or

- comply with DTC's Automated Tender Offer Program procedures described below.

In addition, either:

- the Exchange Agent must receive any corresponding certificate or certificates representing outstanding dollar notes along with the letter of transmittal; or

- the Exchange Agent must receive, before expiration of the Exchange Offer, a timely confirmation of book-entry transfer of outstanding dollar notes into the Exchange Agent's account at DTC according to DTC's Automated Tender Offer Program described below and a properly transmitted agent's message described below; or

- the holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the Exchange Agent must receive any physical delivery of the letter of transmittal and other required documents at the address set forth below under "-- Exchange Agent" before expiration of the Exchange Offer. Delivery of documents to DTC in accordance with its procedures does not constitute delivery to the Exchange Agent.

Any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the Exchange Agent, transmit their acceptance of the Exchange Offer electronically. They may do so by causing DTC to transfer the outstanding dollar notes to the Exchange Agent in accordance with its procedures for transfer. DTC will then send an agent's message to the Exchange Agent. The term "agent's message" means a message transmitted by DTC, received by the Exchange Agent and forming part of the book-entry confirmation which states that:

- DTC has received an express acknowledgment from the participant that is tendering outstanding dollar notes; and

- the participant has received and agrees to be bound by the terms of the letter of transmittal or, in the case of an agent's message relating to guaranteed delivery, that the participant has received and agrees to be bound by the applicable notice of guaranteed delivery.





Procedures for Tendering Outstanding Euro Notes

To tender outstanding euro notes in the Exchange Offer, a holder must effect such tender pursuant to the standard operating procedures of Euroclear or Clearstream, Luxembourg, as the case may be, for book-entry transfers, prior to 5:00 p.m., London time, on the Expiration Date.

Any financial institution that is a participant in the Euroclear or Clearstream, Luxembourg system, as the case may be, may make book-entry delivery of the outstanding euro notes to Euroclear or Clearstream, Luxembourg in accordance with Euroclear's or Clearstream, Luxembourg's standard procedures for such transfer. In lieu of delivering a letter of transmittal to the Exchange Agent, a computer-generated message, in which the holder of the outstanding euro notes acknowledges and agrees to be bound by the terms of the letter of transmittal, must be transmitted and received or confirmed by Euroclear or Clearstream, Luxembourg, as the case may be, prior to 5:00 p.m., London time, on the Expiration Date.

The tender by a holder of outstanding euro notes will constitute an agreement between such holder and us in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

Procedures for Tendering applicable to all Outstanding Notes

Holders may also request that their respective brokers, dealers, commercial banks, trust companies or nominees effect such tender for such holders.

The method of delivery of outstanding notes and all other required documents to the Exchange Agent is at the election and risk of the holders. Instead of delivery by mail, we recommend that holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. No letter of transmittal or outstanding notes should be sent to us.

Only a holder of outstanding notes may tender such outstanding notes in the Exchange Offer. The term "holder" with respect to the Exchange Offer means any person in whose name outstanding notes are registered on our books or the books of any other person who has obtained a properly completed bond power from the

registered holder, or any person whose outstanding notes are held of record by DTC, Euroclear or Clearstream, Luxembourg, who desires to deliver such outstanding notes by book-entry transfer at DTC, Euroclear or Clearstream, Luxembourg, as the case may be.

Any beneficial holder whose outstanding notes are registered in the name of his broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact such registered holder promptly and instruct such registered holder to tender on his behalf. If such beneficial holder wishes to tender on his own behalf, such beneficial holder must, prior to completing and executing the letter of transmittal and delivering his outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in such holder's name or obtain a properly completed bond power from the registered holder. The transfer of record ownership may take considerable time.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an "eligible guarantor institution" (an "Eligible Institution") within the meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), unless the outstanding notes tendered pursuant thereto are tendered (i) by a registered holder who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal or (ii) for the account of an Eligible Institution.

If the letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed therein, such outstanding notes must be endorsed or accompanied by appropriate bond powers which authorize such person to tender the outstanding notes on behalf of the registered holder, in either case signed as the name of the registered holder or holders appears on the outstanding notes.

If the letter of transmittal or any outstanding notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or



representative capacity, such persons should so indicate when signing and, unless waived by us, evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal.

All the questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of the tendered outstanding notes will be determined by us in our sole discretion, which determinations will be final and binding. We reserve the absolute right to reject any and all outstanding notes not validly tendered or any outstanding notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the absolute right to waive any irregularities or conditions of tender as to particular outstanding notes. Our interpretation of the terms and conditions of the Exchange Offer (including the instructions in the letter of transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of outstanding notes must be cured within such time as we will determine. Neither we, the Exchange Agent nor any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of outstanding notes nor shall any of them incur any liability for failure to give such notification. Tenders of outstanding notes will not be deemed to have been made until such irregularities have been cured or waived. Any outstanding notes received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned without cost by the Exchange Agent to the tendering holder of such Outstanding Notes unless otherwise provided in the letter of transmittal, as soon as practicable following the Expiration Date.

In addition, we reserve the right in our sole discretion to (a) purchase or make offers for any outstanding notes that remain outstanding subsequent to the Expiration Date, or, as set forth under "Termination," to terminate the Exchange Offer and (b) to the extent permitted by applicable law, purchase outstanding notes in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers may differ from the terms of the Exchange Offer.

By tendering, each holder of outstanding notes will represent to us that, among other things, the notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such notes, whether or not such person is the holder, that neither the holder nor any other person has an arrangement or understanding with any person to participate in the distribution of such notes and that neither the holder nor any such other person is an "affiliate" of ours within the meaning of Rule 405 under the Securities Act.

GUARANTEED DELIVERY PROCEDURES FOR OUTSTANDING DOLLAR NOTES

Holders who wish to tender their outstanding dollar notes and (i) whose outstanding dollar notes are not immediately available, or (ii) who cannot deliver their outstanding dollar notes, the letter of transmittal, or any other required documents to the Exchange Agent prior to the Expiration Date, or if such holder cannot complete the procedure for book-entry transfer on a timely basis, may effect a tender if:

(a) the tender is made through an Eligible Institution or pursuant to DTC's, Euroclear's or Clearstream, Luxembourg's standard operating procedures;

(b) prior to the Expiration Date (i) the Exchange Agent receives from such Eligible Institution a properly completed and duly executed "notice of guaranteed delivery" in the form accompanying this prospectus (by facsimile transmission, mail or hand delivery) setting forth the name and address of the holder of the outstanding dollar notes, the certificate number or numbers of such outstanding dollar notes and the principal amount of outstanding dollar notes tendered, stating that the tender is being made thereby, and guaranteeing that, within five business days after the Expiration Date, the letter of transmittal (or facsimile thereof), together with the certificate(s) representing the outstanding dollar notes to be tendered in proper form for transfer and any other documents required by the letter of transmittal, will be deposited by the Eligible Institution with the Exchange Agent, or (ii) in lieu of "notice of guaranteed delivery" DTC, Euroclear or Clearstream, Luxembourg receives an electronic transmission which contains the character by which the participant acknowledges its receipt of and agrees to be bound by the guaranteed delivery procedures set forth herein; and



(c) such properly completed and executed letter of transmittal (or facsimile thereof), together with the certificate(s) representing all tendered outstanding dollar notes in proper form for transfer (or to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, of outstanding dollar notes delivered electronically) and all other documents required by the letter of transmittal are received by the Exchange Agent within five business days after the Expiration Date.

WITHDRAWAL OF TENDERS

Except as otherwise provided herein, tenders of outstanding notes may be withdrawn at any time prior to 12:00 p.m., New York City time (5:00 p.m., London time) on the Expiration Date unless previously accepted for exchange.

For a withdrawal to be effective:

- the exchange agent must receive a written notice, which may be by telegram, telex, facsimile transmission or letter, of withdrawal at the address set forth below under "-- Exchange Agent";

- for DTC participants, (with respect to the dollar notes only) holders must comply with the appropriate procedures of DTC's Automated Tender Offer Program system and the exchange agent must receive an electronic notice of withdrawal from DTC and any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of the facility; or

- with respect to the euro notes, a notice of withdrawal must be transmitted to Euroclear and Clearstream, Luxembourg, as the case may be, in accordance with the standard operating procedures of Euroclear or

Clearstream, Luxembourg, as the case may be, prior to 12:00 p.m., New York City time (5:00 p.m., London time), on the business day prior to the Expiration Date and prior to acceptance for exchange thereof by Flowserve Finance.

Any written or facsimile notice of withdrawal for outstanding notes must (i) specify the name of the person having deposited the outstanding notes to be withdrawn (the "Depositor"), (ii) identify the outstanding notes to be withdrawn (including the certificate number or numbers and principal amount of such outstanding notes), (iii) be signed by the Depositor in the same manner as the original signature on the Letter of Transmittal by which such outstanding notes were tendered (including any required signature guarantees) or be accompanied by documents of transfers sufficient to permit the Trustee with respect to the outstanding notes to register the transfer of such outstanding notes into the name of the Depositor withdrawing the tender and (iv) specify the name in which any such outstanding notes are to be registered, if different from that of the Depositor. All questions as to the validity, form and eligibility (including time of receipt) for such withdrawal notices will be determined by us, and our determination shall be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for purposes of the Exchange Offer and no exchange notes will be issued with respect thereto unless the outstanding notes so withdrawn are validly tendered. Any outstanding notes which have been tendered but which are not accepted for exchange will be returned to the holder thereof without cost to such holder as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn outstanding notes may be tendered by following the procedures described above under "-- Procedures for Tendering" at any time prior to the Expiration Date.

TERMINATION

Notwithstanding any other term of the Exchange Offer, we will not be required to accept for exchange, or exchange notes for, any outstanding notes not therefore accepted for exchange, and may terminate or amend the Exchange Offer as provided herein before the acceptance of such outstanding notes if: (i) any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer, which, in our reasonable judgment, might materially impair our ability to proceed with the Exchange Offer or (ii) any law, statute, rule or regulation is proposed, adopted or enacted, or any existing law, statute, rule or regulation is interpreted by the staff of



the SEC or court of competent jurisdiction in a manner, which, in our reasonable judgment, might materially impair our ability to proceed with the Exchange Offer.

If we determine that we may terminate the Exchange Offer, as set forth above, we may (i) refuse to accept any outstanding notes and return any outstanding notes that have been tendered to the holders thereof, (ii) extend the Exchange Offer and retain all outstanding notes tendered prior to the Expiration Date, subject to the rights of such holders of tendered outstanding notes to withdraw their tendered outstanding notes, or (iii) waive such termination event with respect to the Exchange Offer and accept all properly tendered outstanding notes that have not been withdrawn. If such waiver constitutes a material change in the Exchange Offer, we will disclose such change by means of a supplement to this prospectus that will be distributed to each registered holder of outstanding notes, and we will extend the Exchange Offer for a period of five to ten business days, depending upon the significance of the waiver and the manner of disclosure to the registered holders of the outstanding notes, if the Exchange Offer would otherwise expire during such period.

EXCHANGE AGENT

The Bank of New York, has been appointed as Exchange Agent for the exchange of the outstanding notes (the "Exchange Agent"). Questions and requests for assistance relating to the exchange of the outstanding dollar notes should be directed to the Exchange Agent in New York addressed as follows:

| | |
|---|---|
| By Mail: | The Bank of New York<br>Reorganization Section<br>101 Barclay Street, Floor 7 East<br>New York, New York 10286 |
| By Hand Delivery: | The Bank of New York<br>101 Barclay Street<br>Corporate Trust Services Window<br>Ground level<br>New York, New York 10286 |
| Facsimile Transmission: | (212) 815-6339 |
| Confirm by Telephone: | (212) 815-6331 |

Questions and requests for assistance relating to the exchange of the outstanding euro notes should be directed to the Exchange Agent in London addressed as follows:

| | |
|---|---|
| By Mail or Hand Delivery: | The Bank of New York<br>Lower Ground Floor<br>30 Cannon Street<br>London<br>EC4m 6XH |
| Facsimile Transmission: | 011 44 207 964-6369 or<br>011 44 207 964-7294 |
| Confirm by Telephone: | 011 44 207 964-7284 or<br>011 44 207 964-7235 |

Banque Internationale a Luxembourg has been appointed as Luxembourg Paying Agent for the exchange of the outstanding euro notes.

FEES AND EXPENSES

We will bear the expenses of soliciting tenders pursuant to the Exchange Offer. The principal solicitation for tenders pursuant to the Exchange Offer is being made by mail. Additional solicitations may



be made by officers and regular employees of Flowserve and its affiliates in person, by telegraph or telephone.

We will not make any payments to brokers, dealers or other persons soliciting acceptances of the Exchange Offer. We, however, will pay the Exchange Agent reasonable and customary fees for its services and will reimburse the Exchange Agent for its reasonable out-of-pocket expenses in connection therewith. We may also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this prospectus, letters of transmittal and related documents to the beneficial owners of the outstanding notes and in handling or forwarding tenders for exchange.

We will pay the expenses to be incurred in connection with the Exchange Offer, including fees and expenses of the Exchange Agent and Trustees and accounting and legal fees.

We will pay all transfer taxes, if any, applicable to the exchange of outstanding notes pursuant to the Exchange Offer. If, however, certificates representing exchange notes or outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the outstanding notes tendered, or if tendered outstanding notes are registered in the name of any person other than the person signing the Letter of Transmittal, or if a transfer tax is imposed for any reason other than the exchange of outstanding notes pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered holder or any other person) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

## CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2000 (i) on an actual basis and (ii) on a pro forma basis as adjusted to give effect to the Transactions as if they had occurred on such date. The information set forth in the table below should be read in conjunction with the consolidated financial statements and the notes thereto of Flowserve and IDP and the Unaudited Pro Forma Consolidated Financial Statements included elsewhere in this prospectus. Except as set forth in this prospectus, there has been no material change in our capitalization on a consolidated basis since June 30, 2000.

| | ACTUAL | PRO FORMA AS ADJUSTED |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Cash and cash equivalents | $ 14.5 | $ 16.1 |
| Current portion of long-term debt | -- | 6.0 |
| Long-term debt: | | |
| Other long-term debt | 52.4 | -- |
| Existing credit facilities | 263.0 | -- |
| New senior credit facilities: | | |
| Revolving credit facility(1) | -- | -- |
| Term loan facilities | -- | 744.0 |
| Dollar notes offered hereby(2) | -- | 285.9 |
| Euro notes offered hereby(2)(3) | -- | 89.1 |
| Total current and long-term debt | $315.4 | $1,125.0 |
| Shareholders' equity: | | |
| Serial preferred stock, $1.00 par value: | | |
| No shares issued | -- | -- |
| Common shares, $1.25 par value: | | |
| Shares authorized -- 120,000; | | |
| Shares issued and outstanding -- 41,484 | 51.9 | 51.9 |
| Capital in excess of par value | 67.7 | 67.7 |
| Retained earnings | 368.8 | 366.6 |
| Treasury stock | (93.2) | (93.2) |
| Accumulated other comprehensive income | (78.7) | (78.6) |
| Total shareholders' equity | 316.5 | 314.4 |
| Total capitalization | $631.9 | $1,439.4 |

---

(1) Borrowings of up to $300.0 million will be available under the revolving credit facility for six years. We had approximately $30.0 million in undrawn letters of credit issued under the revolving credit facility at the closing of the IDP acquisition. As a result, under our revolving credit facility immediately after the closing of the IDP acquisition we had unused borrowing capacity, net of issued letters of credit, of approximately $270.0 million.

(2) Reflects issuance of the senior subordinated dollar notes of $290.0 million and senior subordinated euro notes of E100.0 million at 98.586% of face value.

(3) Assuming a conversion rate of euro into U.S. dollars of E0.9033 to $1.00, which was the rate in effect on August 3, 2000.

## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements (the "Unaudited Pro Forma Financial Statements") are based on the historical consolidated financial statements of Flowserve, Invatec and IDP included elsewhere in this prospectus, adjusted to give effect to the transactions described herein.

The Unaudited Pro Forma Consolidated Statements of Operations for the year ended December 31, 1999 and six months ended June 30, 1999 and June 30, 2000, respectively, give effect to the Transactions and the acquisition of Invatec as if they had occurred on January 1, 1999. The Unaudited Pro Forma Consolidated Balance Sheet gives effect to the Transactions as if they had occurred as of June 30, 2000.

The Transactions and the acquisition of Invatec and the related adjustments are described in the accompanying notes. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. In our opinion, all adjustments that are necessary to present fairly the pro forma data have been made. The Unaudited Pro Forma Consolidated Financial Statements do not purport to represent what our results of operations or financial condition would actually have been had the Transactions in fact occurred on such dates or to project our results of operations or financial condition for any future period or date. The Unaudited Pro Forma Consolidated Financial Statements should be read in conjunction with the historical consolidated financial statements of Flowserve, Invatec and IDP included elsewhere in this prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The unaudited pro forma consolidated financial statements do not include the impact of any post-closing regulatory divestitures required under our consent decree with the U.S. Department of Justice in connection with the IDP acquisition. See "Business -- Regulatory Divestitures." These divestitures would affect less than three percent of the combined 1999 revenues of Flowserve and IDP. In the opinion of management, the impact of these divestiture actions will not be material to our overall pro forma financial position or results of operations.

The unaudited pro forma information with respect to the Invatec acquisition and the IDP acquisition is based on the historical financial statements of Flowserve, Invatec and IDP. The Invatec acquisition and the IDP acquisition have been accounted for under the purchase method of accounting. The total purchase price for the Invatec acquisition and the IDP acquisition has been allocated to the tangible and identifiable intangible assets and liabilities of the acquired businesses based upon our preliminary estimates of their fair value with the remainder allocated to goodwill. The purchase price allocations for the Invatec acquisition and the IDP acquisition are subject to refinement when additional information concerning asset and liability valuations is obtained.

The historical consolidated financial statements of Flowserve, Invatec and IDP were prepared in accordance with accounting principles generally accepted in the United States.



## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
## YEAR ENDED DECEMBER 31, 1999

| | HISTORICAL | | INVATEC ACQUISITION ADJUSTMENTS(1) | PRO FORMA FLOWSERVE/ INVATEC | HISTORICAL IDP | IDP ACQUISITION/ FINANCING ADJUSTMENTS(1) | PRO FORMA CONSOLIDATED |
|---|---|---|---|---|---|---|---|
| | FLOWSERVE | INVATEC | | | | | |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | | | |
| Net sales | $1,061,272 | $160,991 | $ -- | $1,222,263 | $838,390 | $ -- | $2,060,653 |
| Cost of sales | 697,928 | 115,956 | -- | 813,884 | 610,745 | (1,400)(f)<br>6,112(g)<br>4,884(k)<br>(383)(p) | 1,433,842 |
| Gross profit | 363,344 | 45,035 | -- | 408,379 | 227,645 | (9,213) | 626,811 |
| Selling and administrative expense | 275,884 | 40,368 | (1,554)(a)<br>(56)(b) | 314,642 | 162,047 | (600)(f)<br>(3,600)(h)<br>(4,200)(i)<br>9,134(j)<br>3,049(k) | 480,472 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Research, engineering and development expense..... | 25,645 | -- | -- | 25,645 | 2,984 | -- | 28,629 |
| Merger transaction and restructuring expense(2)..... | 15,860 | -- | -- | 15,860 | 200 | -- | 16,060 |
| Merger integration expense(3)..... | 14,207 | -- | -- | 14,207 | -- | -- | 14,207 |
| Operating income..... | 31,748 | 4,667 | 1,610 | 38,025 | 62,414 | (12,996) | 87,443 |
| Interest (income) expense..... | 15,504 | 12,724 | (6,928)(c) | 21,300 | 1,362 | 105,993(l) | 128,655 |
| Loss on assets held for sale..... | -- | 3,810 | -- | 3,810 | -- | -- | 3,810 |
| Impairment of goodwill..... | -- | 39,073 | (39,073)(d) | -- | -- | -- | -- |
| Other income, net..... | (2,001) | (174) | -- | (2,175) | (7,446) | -- | (9,621) |
| Earnings (loss) before income taxes..... | 18,245 | (50,766) | 47,611 | 15,090 | 68,498 | (118,989) | (35,401) |
| Provision (benefit) for income taxes..... | 6,068 | 6,372 | (7,234)(e) | 5,206 | 18,965 | (36,915)(m) | (12,744) |
| Net income (loss)..... | $ 12,177 | $(57,138) | $ 54,845 | $ 9,884 | $ 49,533 | $ (82,074) | $ (22,657) |
| PER COMMON SHARE: | | | | | | | |
| Net loss per share (basic and diluted)..... | | | | | | | $ (.60) |
| Average shares outstanding..... | | | | | | | 37,856 |
| OTHER FINANCIAL DATA: | | | | | | | |
| Depreciation and amortization..... | $ 39,599 | $ 4,851 | $ (56) | $ 44,394 | $ 18,251 | $ 23,179 | $ 85,824 |
| Cash interest expense(n)..... | | | | | | | 122,215 |
| Ratio of earnings to fixed charges(o)..... | | | | | | | -- |

The accompanying notes are an integral part of the unaudited pro forma consolidated financial statements.



## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS SIX MONTHS ENDED JUNE 30, 1999

| | HISTORICAL | | INVATEC ACQUISITION | PRO FORMA FLOWSERVE/ | HISTORICAL | IDP ACQUISITION/ FINANCING | PRO FORMA |
|---|---|---|---|---|---|---|---|
| | FLOWSERVE | INVATEC | ADJUSTMENTS | INVATEC(1) | IDP | ADJUSTMENTS(1) | CONSOLIDATED |
| | (DOLLARS IN THOUSANDS) | | | | | | |
| Net sales..... | $544,583 | $87,103 | | $631,686 | $399,490 | $ -- | $1,031,176 |
| Cost of sales..... | 353,903 | 60,902 | | 414,805 | 295,575 | (700)(f)<br>3,056(g)<br>2,442(k)<br>167(p) | 715,345 |
| Gross profit..... | 190,680 | 26,201 | -- | 216,881 | 103,915 | (4,965) | 315,831 |
| Selling and administrative expense..... | 133,314 | 22,062 | $ (28)(b) | 155,348 | 79,847 | (300)(f)<br>(1,800)(h)<br>(1,884)(i)<br>4,567(j)<br>1,525(k) | 237,303 |
| Research, engineering and development expense..... | 13,199 | -- | -- | 13,199 | 1,470 | -- | 14,669 |
| Merger integration expense(3)..... | 7,838 | -- | -- | 7,838 | -- | -- | 7,838 |
| Operating income..... | 36,329 | 4,139 | 28 | 40,496 | 22,598 | (7,073) | 56,021 |
| Interest (income) expense..... | 7,203 | 6,197 | (3,464)(c) | 9,936 | 765 | 53,627(l) | 64,328 |
| Loss on assets held for sale..... | | 3,810 | | 3,810 | | | 3,810 |
| Other (income) expense, net... | 525 | (60) | | 465 | (3,167) | -- | (2,702) |
| Earnings (loss) before income taxes..... | 28,601 | (5,808) | 3,492 | 26,285 | 25,000 | (60,700) | (9,415) |
| Provision (benefit) for income taxes..... | 9,724 | (547) | (109)(e) | 9,068 | 10,005 | (22,462)(m) | (3,389) |
| Net income (loss)..... | $ 18,877 | $(5,261) | $ 3,601 | $ 17,217 | $ 14,995 | $(38,238) | $ (6,026) |
| PER COMMON SHARE: | | | | | | | |
| Net loss per share (basic and diluted)..... | | | | | | | $ (.16) |
| Average Shares Outstanding..... | | | | | | | 37,771 |
| OTHER FINANCIAL DATA: | | | | | | | |
| Depreciation and amortization..... | | | | | | | $ 45,134 |
| Cash interest expense(n)..... | | | | | | | 61,108 |

The accompanying notes are an integral part of the unaudited pro forma consolidated financial statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2000

| | HISTORICAL | | FLOWSERVE/ IDP | IDP ACQUISITION/FINANCING ADJUSTMENTS(1) | PRO FORMA CONSOLIDATED |
|---|---|---|---|---|---|
| | FLOWSERVE(A) | IDP | | | |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | |
| Net sales | $584,462 | $363,409 | $947,871 | $ -- | $947,871 |
| Cost of sales | 382,070 | 279,792 | 661,862 | (700)(f)<br>1,573(g)<br>193(k)<br>(550)(p) | 662,378 |
| Gross profit | 202,392 | 83,617 | 286,009 | (516) | 285,493 |
| Selling and administrative expense | 142,220 | 76,362 | 218,582 | (300)(f)<br>(1,800)(h)<br>(1,944)(i)<br>2,899(j)<br>1,352(k) | 218,789 |
| Research, engineering and development expense | 12,353 | 1,310 | 13,663 | -- | 13,663 |
| Operating income | 47,819 | 5,945 | 53,764 | (723) | 53,041 |
| Interest expense | 13,576 | 530 | 14,106 | 50,222(l) | 64,328 |
| Other (income) expense, net | (3,161) | (712) | (3,873) | -- | (3,873) |
| Earnings (loss) before income taxes | 37,404 | 6,127 | 43,531 | (50,945) | (7,414) |
| Provision (benefit) for income taxes | 12,905 | 8,591 | 21,496 | (24,165)(m) | (2,669) |
| Net income (loss) | $ 24,499 | $ (2,464) | $ 22,035 | $(26,780) | $ (4,745) |
| PER COMMON SHARE: | | | | | |
| Net loss per share (basic and diluted) | | | | | $ (0.13) |
| Average shares outstanding | | | | | 37,810 |
| OTHER FINANCIAL DATA: | | | | | |
| Depreciation and amortization | | | | | $ 41,302 |
| Cash interest expense(n) | | | | | 61,108 |
| Ratio of earnings to fixed charges(o) | | | | | -- |

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(A) Includes the results of Invatec from January 13, 2000.

The accompanying notes are an integral part of the unaudited pro forma consolidated financial statements.



NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

NOTE 1: PRO FORMA ADJUSTMENTS

The following pro forma adjustments have been applied to the accompanying historical consolidated statements of operations of Flowserve, Invatec and IDP to give effect to the Invatec acquisition and the IDP acquisition (see note 1 to the unaudited pro forma consolidated balance sheet) and the financing transactions as if they had all occurred on January 1, 1999.

(a) Represents reduction in Invatec selling and administrative costs for non-recurring items associated with

pre-acquisition bank fees and other credit facility related expenses.

(b) Represents incremental decrease in annual goodwill amortization based on decrease of $4.3 million of estimated goodwill originating from the Invatec acquisition and reduction of amortization period from 40 to 20 years.

(c) Represents the net reduction in consolidated interest expense related to Invatec debt financing.

(d) Represents reversal of Invatec goodwill impairment charge.

(e) Represents income tax adjustments required to arrive at the expected pro forma effective tax rate of 34.5% after Flowserve's acquisition of Invatec.

(f) Represents actuarially determined adjustment to retiree pension and post-retirement benefits expense for hourly and salaried personnel of IDP that, pursuant to the IDP purchase agreement, were retained by Ingersoll-Rand, IDP's predecessor parent, net of the pension benefits provided to IDP employees under the Flowserve plans.

(g) Represents incremental increase in depreciation expense in cost of sales based on estimated fair market value of property, plant and equipment over estimated useful lives of 3 to 40 years.

This adjustment is based on a preliminary allocation of the purchase price for the IDP acquisition. The final allocation of the purchase price is contingent upon valuations that have not been completed. See note 1 to the unaudited pro forma consolidated balance sheet for further discussion on the purchase price allocation related to the IDP acquisition.

(h) Represents the elimination of corporate overhead expenses allocated by Ingersoll-Rand to IDP. Pursuant to the IDP purchase agreement, this allocation was eliminated upon closing of the IDP acquisition on August 8, 2000. Flowserve will assume and provide services with no significant incremental cost above what it cost Flowserve to provide such services prior to the acquisition for tax services, information technology support, pensions and benefits administration and other overhead costs.

(i) Represents the elimination of expense recorded by IDP related to a phantom stock incentive plan that was eliminated upon consummation of the Acquisition. IDP personnel losing these previous incentives may be eligible to participate in Flowserve's established stock option incentive scheme, which generally does not result in any compensation charge.

(j) Represents incremental increase in annual goodwill amortization based on $225.7 million of estimated goodwill over an estimated useful life of 40 years related to the IDP acquisition.

(k) Represents incremental increase in amortization expense based on estimated fair value of other intangible assets acquired over their estimated useful lives of approximately 17 years.





NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS -- (CONTINUED)

| | FOR YEAR ENDED DECEMBER 31, 1999 | SIX MONTHS ENDED JUNE 30, 1999 | SIX MONTHS ENDED JUNE 30, 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| (l) Represents the following: | | | |
| Interest on Term Loan A ($275.0 @ 9.4%) | $ 25.9 | $12.9 | $12.9 |
| Interest on Term Loan B ($475.0 @ 10.1%) | 48.0 | 24.0 | 24.0 |
| Interest expense associated with notes offered hereby ($380.3 @ 12.25%) | 46.5 | 23.3 | 23.3 |
| Letter of credit fee ($110.0 @ 1.64% weighted average, including $30.0 under the Revolving Credit Facility) | 1.8 | 0.9 | 0.9 |
| Cash interest expense | 122.2 | 61.1 | 61.1 |
| Non-cash increase in amortization associated with $46.5 million in deferred financing costs and $5.4 million | | | |

| | | | |
|---|---|---|---|
| discount on the note offerings incurred in connection with entering into the Senior Credit Facilities and issuance of the notes offered hereby, amortized over terms ranging from 6 to 10 years. | 6.5 | 3.2 | 3.2 |
| Sub-total interest expense | 128.7 | 64.3 | 64.3 |
| Elimination of interest and associated fees on borrowings repaid in connection with the financings | (22.7) | (10.7) | (14.1) |
| Net Adjustment | $106.0 | $53.6 | $50.2 |

For each 0.125% change in the interest rates payable on the outstanding balance under the Senior Credit Facilities and the notes offered hereby, annual interest expense would change by $1.4 million before the effect of income taxes.

(m) Represents income tax adjustment required to arrive at the expected pro forma effective tax rate of 36.0% and to provide U.S. taxes on IDP partnership earnings.

(n) Cash interest expense is total interest expense less amortization of deferred financing costs and discount of notes offered hereby. For purposes of determining the ratio of earnings to fixed charges, earnings

(o) consist of income (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness, amortization of deferred financing fees and the estimated interest portion of rental expense estimated to be attributable to interest. For the year ended December 31, 1999 and the six months ended June 30, 2000, earnings were insufficient to cover fixed charges by $34.5 million and $7.9 million, respectively.

(p) Represents estimated rental expense for the Phillipsburg plant for Flowserve's planned usage prior to the shutdown of the facility, net of direct costs related to the facility historically incurred by IDP which are not incremental costs to Flowserve as the Phillipsburg plant was not acquired under the terms of the Agreement.

NOTE 2: MERGER TRANSACTION AND RESTRUCTURING EXPENSE

Represents non-recurring merger transaction and restructuring expenses. In 1999, $15.9 million for Flowserve represents facility closure and personnel reductions of 9% to reduce excess capacity and $0.2 million for IDP relates to additional costs incurred in regards to a foundry closure initiated in 1996.

NOTE 3: MERGER INTEGRATION EXPENSES

Represents non-recurring expenses related to the merger of BW/IP and Durco in order to achieve the planned merger synergies. These expenses were principally for costs for consultants and costs related to integration team members including salaries, benefits and training.



UNAUDITED PRO FORMA
CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2000

ASSETS

| | HISTORICAL | | PRO FORMA | PRO FORMA |
|---|---|---|---|---|
| | FLOWSERVE | IDP(1) | ADJUSTMENTS(2) | CONSOLIDATED |
| | (DOLLARS IN THOUSANDS) | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 14,495 | $ 23,566 | $ (21,963)(a) | $ 16,098 |
| Accounts receivable, net | 246,331 | 178,848 | -- | 425,179 |

| | | | | |
|---|---|---|---|---|
| Inventories | 210,617 | 122,117 | -- | 332,734 |
| Prepaids and other current assets | 37,094 | 26,746 | 22,598(b) | 86,438 |
| Total current assets | 508,537 | 351,277 | 635 | 860,449 |
| Property, plant and equipment, net | 221,336 | 164,863 | 27,701(c) | 413,900 |
| Goodwill, net | 145,155 | 139,675 | 225,676(d) | 510,506 |
| Intangibles assets, net | 6,197 | 75,622 | 63,478(e) | 145,297 |
| Other assets | 80,851 | 17,162 | 44,301(f) | 142,314 |
| Total assets | $962,076 | $748,599 | $ 361,791 | $2,072,466 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Current portion of long-term debt and notes payable | $ 575 | $ -- | $ 5,956(g) | $ 6,531 |
| Accounts payable | 76,802 | 187,420 | -- | 264,222 |
| Income taxes | 8,904 | -- | | 8,904 |
| Accrued expenses and other liabilities | 96,957 | 3,458 | 54,646(h) | 155,061 |
| Total current liabilities | 183,238 | 190,878 | 60,602 | 434,718 |
| Noncurrent liabilities | -- | 90 | -- | 90 |
| Post-retirement benefits and deferred items | 146,963 | 92,477 | (35,088)(i) | 204,352 |
| Long-term debt due after one year | 315,348 | -- | 803,604(g) | 1,118,952 |
| Shareholders' equity: | | | | |
| Serial preferred stock | | | | |
| Common stock | 51,856 | 414,558 | (414,558) | 51,856 |
| Capital in excess of par value | 67,697 | -- | -- | 67,697 |
| Retained earnings | 368,754 | 89,982 | (92,155) | 366,581 |
| Treasury stock, at cost | (93,226) | -- | -- | (93,226) |
| Accumulated other comprehensive income | (78,554) | (39,386) | 39,386 | (78,554) |
| Total shareholders' equity | 316,527 | 465,154 | (467,327)(j) | 314,354 |
| Total liabilities and shareholders' equity | $962,076 | $748,599 | $ 361,791 | $2,072,466 |

The accompanying notes are an integral part of the unaudited pro forma consolidated financial statements.



## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

The following pro forma adjustments have been applied to the accompanying historical balance sheets of Flowserve and IDP to give effect to the IDP acquisition and the financing transactions as if they had occurred on June 30, 2000.

### NOTE 1. ACQUISITIONS

On August 8, 2000 Flowserve acquired IDP. The IDP acquisition will be accounted for as a purchase, with the excess of the purchase price over the fair value of net assets acquired allocated to goodwill.

A summary of the purchase price and related preliminary purchase price allocation follows:

| | (DOLLARS IN THOUSANDS) |
|---|---|
| Cash paid at closing | $ 775,000 |
| Cash paid for direct acquisition costs, including financial advisory, accounting and legal costs | 10,049 |
| Aggregate purchase price | 785,049 |
| Book value of IDP net assets acquired | (505,242) |
| Excess of cost over net book value of assets acquired | 279,807 |

| | |
|---|---|
| Adjustments to record assets and liabilities at fair market values(a) | |
| Prepaid rent on Phillipsburg Plant | (1,839) |
| Property and equipment | (27,701) |
| Elimination of Phantom Stock Incentive Plan | (3,018) |
| Intangible assets, including patents, trademarks and trade names | (63,478) |
| Deferred income taxes related to IDP acquisition | 5,000 |
| Severance, facility closing expenses and other exit costs to be incurred in connection with the Acquisition, net of taxation(b) | 36,905 |
| Net adjustment to goodwill | $ 225,676 |

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(a) Upon completion of appraisals of the fair values of the acquired assets and liabilities, our allocation of the purchase price may differ from that presented above, and we may identify other assets to which a portion of the purchase price will be allocated. We believe that the depreciation and amortization periods for such identifiable other assets will be approximately 17 years.

(b) Reflects exit costs to be incurred in connection with the Acquisition in accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."



NOTES TO UNAUDITED PRO FORMA
CONSOLIDATED BALANCE SHEET -- (CONTINUED)

NOTE 2: PRO FORMA ADJUSTMENTS TO CONSOLIDATED BALANCE SHEET

The Unaudited Pro Forma Consolidated Balance Sheet reflects the IDP acquisition and related financing transactions, as if they had occurred as of June 30, 2000. The application of the proceeds from borrowings under the Senior Credit Facilities and the issuance of the notes offered by this offering occurred concurrently with the closing of this offering.

| | (DOLLARS IN THOUSANDS) |
|---|---|
| (a) Changes in cash and cash equivalents are: | |
| Cash proceeds from initial borrowings under the Senior Credit Facilities | $ 750,000 |
| Cash proceeds from issuance of the notes ($380.3 million) offered hereby | 374,952 |
| Proceeds from these borrowings | 1,124,952 |
| Payment to Ingersoll-Rand for purchase of IDP | (775,000) |
| Repayment of existing Flowserve debt | (315,392) |
| Transaction fees and expenses | (56,523) |
| Uses of cash | (1,146,915) |
| Total adjustment to cash | $ (21,963) |
| (b) To record prepaid asset associated with free rental period provided by Ingersoll-Rand in accordance with contractual terms of the Agreement based on the planned usage of the facility by Flowserve prior to shut-down | $ 1,839 |
| Deferred taxes resulting from restructuring costs associated with IDP | 20,759 |
| Total adjustment to prepaids and other current assets | $ 22,598 |
| (c) To record property and equipment acquired from IDP at estimated fair value, excluding the Phillipsburg Plant which was not acquired under the terms of the Agreement | $ 27,701 |
| (d) To record goodwill resulting from the IDP acquisition | $ 225,676 |
| (e) To reflect adjustments to record fair value of intangible | |

| | | |
|---|---|---|
| | assets acquired from the IDP acquisition..... | $ 63,478 |
| (f) | To reflect adjustments to record the following: | |
| | To record deferred financing costs in connection with entering into the Senior Credit Facilities and issuing the notes offered hereby..... | $ 46,474 |
| | Write-off of deferred financing fees related to existing Flowserve credit facility..... | (2,173) |
| | Total adjustment to other assets..... | $ 44,301 |





NOTES TO UNAUDITED PRO FORMA
CONSOLIDATED BALANCE SHEET -- (CONTINUED)

NOTE 2: PRO FORMA ADJUSTMENTS TO CONSOLIDATED BALANCE SHEET -- (CONTINUED)

| | | (DOLLARS IN THOUSANDS) |
|---|---|---|
| (g) | Reflects the issuance of the notes offered hereby and initial borrowings under the Senior Credit Facilities, net of repayment of existing indebtedness: | |
| | Issuance of the notes offered herein..... | $ 374,952 |
| | Initial borrowings under the Senior Credit Facilities..... | 750,000 |
| | | 1,124,952 |
| | Less: repayment of Flowserve long-term debt..... | (315,348) |
| | Less: reclassification of long-term to current for initial principal payment due June 30, 2001..... | (6,000) |
| | Net adjustment to long-term debt..... | $ 803,604 |
| | Adjustment to current portion of long-term debt: | |
| | Current portion of Term Loan A and Term Loan B due June 30, 2001..... | $ 6,000 |
| | Less: repayment of existing current portion of long-term debt..... | (44) |
| | Net adjustment to current portion of long-term debt..... | $ 5,956 |
| (h) | To reflect adjustments to record integration related restructuring costs associated with the Acquisition in accordance with EITF 95-3 "Recognition of liabilities in connection with a Purchase Business Combination"..... | $ 57,664 |
| | Represents elimination of liability recorded by IDP related to a phantom stock incentive plan that ceased at the date of the IDP acquisition..... | (3,018) |
| | Total adjustments..... | $ 54,646 |
| (i) | Pension and post-retirement health care liabilities retained by Ingersoll-Rand, IDP's predecessor parent..... | $ (40,088) |
| | Deferred income taxes related to IDP acquisition..... | 5,000 |
| | Net adjustment to Post-retirement benefits and deferred items..... | $ (35,088) |
| (j) | Represents adjustments to reflect the following: | |
| | Elimination of IDP contributed capital..... | $ 414,558 |
| | Elimination of IDP accumulated earnings..... $89,982 | |
| | Write-off of pre-existing deferred financing costs related to existing Flowserve debt..... 2,173 | |
| | Sub-total, retained/accumulated earnings adjustments..... | 92,155 |
| | Elimination of IDP accumulated other comprehensive income..... | (39,386) |
| | Total adjustments..... | $ 467,327 |

## SELECTED HISTORICAL FINANCIAL DATA

### FLOWSERVE CORPORATION

The following selected historical financial data of Flowserve as of and for each of five fiscal years in the period ended December 31, 1999 have been derived from Flowserve's audited consolidated financial statements and the notes thereto. The following selected historical financial data as of and for the six months ended June 30, 1999 and June 30, 2000 have been derived from Flowserve's unaudited consolidated financial statements included elsewhere within this prospectus. This selected historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Flowserve" and the consolidated financial statements of Flowserve included elsewhere in this prospectus.

| | YEAR ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED | SIX MONTHS ENDED |
|---|---|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 | JUNE 30, 1999 | JUNE 30, 2000 |
| | (DOLLARS IN MILLIONS) | | | | | | |
| Net sales | $ 983.9 | $1,097.6 | $1,152.2 | $1,083.1 | $1,061.3 | $544.6 | $584.5 |
| Cost of sales | 591.6 | 668.7 | 703.3 | 667.7 | 697.9 | 353.9 | 382.1 |
| Gross profit | 392.3 | 428.9 | 448.9 | 415.4 | 363.4 | 190.7 | 202.4 |
| Selling and administrative expense | 264.4 | 283.4 | 285.9 | 265.6 | 275.9 | 133.3 | 142.2 |
| Research, engineering and development expense | 24.6 | 24.5 | 26.9 | 26.4 | 25.6 | 13.2 | 12.4 |
| Merger transaction and restructuring expense | 5.1 | 5.8 | 44.5 | -- | 15.9 | | |
| Merger integration expense | -- | -- | 7.0 | 38.3 | 14.2 | 7.9 | -- |
| Operating income | 98.2 | 115.2 | 84.6 | 85.1 | 31.8 | 36.3 | 47.8 |
| Interest expense | 12.3 | 12.1 | 13.3 | 13.2 | 15.5 | 7.2 | 13.6 |
| Other (income) expense, net | (2.5) | (5.2) | (18.5) | (1.3) | (2.0) | .5 | (3.2) |
| Earnings before income taxes | 88.4 | 108.3 | 89.8 | 73.2 | 18.3 | 28.6 | 37.4 |
| Provision for income taxes | 34.4 | 37.2 | 38.2 | 25.5 | 6.1 | 9.7 | 12.9 |
| Cumulative effective of change in accounting principle | -- | -- | -- | (1.2) | -- | -- | -- |
| Net income | $ 54.0 | $ 71.1 | $ 51.6 | $ 48.9 | $ 12.2 | $ 18.9 | $ 24.5 |
| PER COMMON SHARE: | | | | | | | |
| Net earnings (basic and diluted) | $ 1.30 | $ 1.72 | $ 1.26 | $ 1.23 | $ 0.32 | $ 0.50 | $ 0.65 |
| Dividends | .51 | .57 | .65 | .56 | .56 | 0.28 | -- |
| Book value(1) | 9.01 | 9.40 | 9.74 | 9.15 | 8.23 | 9.23 | 8.46 |
| OTHER FINANCIAL DATA: | | | | | | | |
| Depreciation and amortization | 34.5 | 36.7 | 38.9 | 39.3 | 39.6 | 21.2 | 20.4 |
| Capital expenditures, net | 39.9 | 35.7 | 39.6 | 38.2 | 40.5 | 20.2 | 12.4 |
| Ratio of earnings to fixed charges(2) | 6.3 | 7.3 | 5.9 | 5.2 | 1.8 | 3.6 | 3.1 |
| BALANCE SHEET DATA (AS OF END OF PERIOD): | | | | | | | |
| Working capital | $ 251.8 | $ 280.0 | $ 284.2 | $ 268.2 | $ 258.1 | $267.6 | $325.3 |
| Total assets | 801.1 | 829.8 | 880.0 | 870.2 | 838.2 | 845.0 | 962.1 |
| Long-term debt | 125.9 | 144.0 | 128.9 | 186.3 | 198.0 | 192.9 | 315.3 |
| Shareholders' equity | 375.2 | 388.6 | 395.3 | 344.8 | 308.3 | 345.3 | 316.5 |

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(1) Calculated as shareholders' equity as of the end of the period divided by common shares issued, less amounts held in Treasury.

(2) For purposes of determining the ratio of earnings to fixed charges, earnings from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness, amortization of deferred financing fees and the estimated interest portion of rental expense attributable to interest.





### INGERSOLL-DRESSER PUMP COMPANY

The following selected historical financial data of IDP as of and for the years ended December 31, 1996, 1997, 1998 and 1999 have been derived from its audited consolidated financial statements and the notes thereto. The selected historical financial data as of and for the year ended December 1995 is unaudited. The following selected historical financial data as of and for the six months ended June 30, 1999 and June 30, 2000 have been derived from IDP's unaudited consolidated financial statements included elsewhere in this prospectus. This selected historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Ingersoll-Dresser Pump Company" and the

consolidated financial statements of Ingersoll-Dresser Pump Company included elsewhere in this prospectus.

| | YEAR ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | SIX MONTHS ENDED JUNE 30, |
|---|---|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (UNAUDITED) | (DOLLARS IN MILLIONS) | | | | | |
| Net sales | $793.1 | $856.3 | $865.1 | $907.2 | $838.4 | $399.5 | $363.4 |
| Cost of Sales | 607.5 | 641.2 | 637.2 | 661.1 | 610.7 | 295.6 | 279.8 |
| Gross profit | 185.6 | 215.1 | 227.9 | 246.1 | 227.7 | 103.9 | 83.6 |
| Selling and administrative expense | 162.5 | 163.2 | 163.1 | 168.9 | 162.1 | 79.8 | 76.4 |
| Research, engineering and development expense | 1.6 | 2.8 | 3.6 | 3.8 | 3.0 | 1.5 | 1.3 |
| Restructuring expense | -- | 4.5 | 19.5 | 3.6 | 0.2 | -- | -- |
| Operating income | 21.5 | 44.6 | 41.7 | 69.8 | 62.4 | 22.6 | 5.9 |
| Interest expense | 1.7 | 1.5 | 1.3 | 1.6 | 1.4 | .8 | 0.5 |
| Other income, net | (13.0) | (5.0) | (4.1) | (7.1) | (7.5) | (3.2) | (0.7) |
| Earnings before income taxes | 32.8 | 48.1 | 44.5 | 75.3 | 68.5 | 25.0 | 6.1 |
| Provision for income taxes | 6.8 | 11.8 | 13.2 | 16.6 | 19.0 | 10.0 | 8.6 |
| Net income | $ 26.0 | $ 36.3 | $ 31.3 | $ 58.7 | $ 49.5 | $ 15.0 | $ (2.5) |
| OTHER FINANCIAL DATA: | | | | | | | |
| Depreciation and amortization | $ 21.6 | $ 20.5 | $ 20.1 | $ 19.0 | $ 18.3 | $ 9.9 | $ 14.9 |
| Capital expenditures | 17.3 | 17.0 | 16.3 | 20.3 | 18.2 | 5.9 | 4.8 |
| BALANCE SHEET DATA (AS OF END OF PERIOD): | | | | | | | |
| Working capital | $261.4 | $329.6 | $215.9 | $197.5 | $174.9 | 429.6 | $160.4 |
| Total assets | 630.2 | 690.0 | 725.9 | 800.6 | 796.4 | 748.9 | 748.6 |
| Partners' equity | 362.8 | 401.0 | 416.4 | 479.1 | 492.5 | 474.4 | 465.2 |



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Flowserve and IDP appearing elsewhere in this prospectus. For information regarding our pro forma financial condition, see "Unaudited Pro Forma Consolidated Financial Statements" included in this prospectus.

### OVERVIEW

On February 9, 2000, Flowserve announced it had reached a definitive agreement to acquire Ingersoll-Dresser Pump Company from Ingersoll-Rand for $775 million in cash. The acquisition closed August 8, 2000. The transaction was financed with a combination of new bank facilities and senior subordinated notes. In connection with the acquisition, all of Flowserve's existing indebtedness was refinanced. Flowserve also announced suspension of dividend payments.

We believe we are the largest manufacturer and aftermarket service provider of comprehensive flow control systems in the world. Our customers include the world's leading engineering and construction firms, OEMs, distributors and end users, including Asea Brown Boveri, ARCO, BASF, Bayer, Bechtel, BP Amoco, Dow Chemical, Duke Energy, DuPont, Eastman Chemical, ExxonMobil, Royal Dutch/Shell, Saudi Aramco, Texaco, TotalFinaElf and the United States Navy. Our ability to provide the full spectrum of products and services in our markets in a time critical manner is key to increasing our market share.

The principal elements comprising cost of sales are raw materials, labor and manufacturing overhead. During 1999, raw materials accounted for approximately half of cost of sales. Principal raw materials we use include bar stock and structural steel, castings, fasteners, gaskets, motors, silicon faces and carbon faces and teflon(R). We expect to reduce our overall cost of raw materials through increased negotiating leverage and improvements in manufacturing efficiency. Although we often purchase raw materials from one supplier, we have multiple sources from which we can procure raw materials. Labor costs include employee costs of salaried and hourly employees. We have reduced labor costs over the last few years through productivity improvements and restructuring efforts. Manufacturing overhead includes lease costs, depreciation on property, plant and equipment, utilities, property taxes and repairs and maintenance.

Operating expenses include selling, general and administrative expenses and research, engineering and development expenses. Selling expenses primarily

include salaries and benefits to the sales force and commissions to independent sales representatives. Our sales force is paid a commission on recurring sales. General and administrative expenses include corporate overhead relating to employee costs, rent expense, professional fees and information system costs. Research, engineering and development expenses are incurred for the development of new products and the enhancement of existing products. We have reduced our engineering, design and development costs through, among other things, the use of common designs and components.

FLOWSERVE

OVERVIEW

Flowserve was created on July 22, 1997, through a merger of equals between BW/IP, Inc. and Durco International Inc., which was accounted for under the "pooling of interests" method of accounting. Accordingly, all historical information for Flowserve has been restated giving effect to the transaction as if the two companies had been combined at the beginning of all periods presented.

Flowserve produces engineered pumps, precision mechanical seals, automated and manual quarter-turn valves, control valves and valve actuators, and provides a range of related flow management services worldwide, primarily for the process industries. Flowserve's products are used in industries which process difficult to handle and often corrosive fluids, in environments with extreme temperature and pressure and wherever process leakage cannot be tolerated. Flowserve's businesses are affected by economic conditions in the United States and other countries where its products are sold and serviced, by the relationship of the U.S. dollar to other currencies, and by the demand and pricing for customers' products. The impact of



these conditions is somewhat mitigated by the strength and diversity of Flowserve's product lines and geographic coverage.

RESULTS OF OPERATIONS

The following table sets forth summary categories of statements of operations data as a percentage of net sales:

| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 61.0 | 61.6 | 65.8 | 65.0 | 65.4 |
| Gross profit | 39.0 | 38.4 | 34.2 | 35.0 | 34.6 |
| Selling and administrative expenses | 24.8 | 24.5 | 26.0 | 24.5 | 24.3 |
| Operating income | 7.3 | 7.9 | 3.0 | 6.7 | 8.2 |
| Interest expense | 1.2 | 1.2 | 1.5 | 1.3 | 2.3 |
| Earnings before income taxes | 7.8 | 6.8 | 1.7 | 5.3 | 6.4 |
| Net income | 4.5 | 4.5 | 1.1 | 3.5 | 4.2 |

In general, results for the first half of 2000 were higher than the corresponding period of the previous year due to Flowserve's acquisition of Invatec on January 13, 2000 and 1999 results were lower than the two previous years due to trends in the global markets in which Flowserve participates. The economic turmoil that started in Asia in the second half of 1997 spread to other parts of the world, including Latin America. The profitability of Flowserve's chemical and petroleum customers, which collectively represent about 71% of the business, was negatively impacted by the economic weakness. This economic weakness contributed to a supply/demand imbalance of chemical products, and an oil price that fell to as low as $10.73 per barrel in December 1998 compared with $17.78 per barrel in December 1997. At the end of 1999, the price per barrel increased to $25.60 and, as a result, Flowserve began to see an increase in bid activity in the petroleum and chemical markets. This increase did not have a significant positive effect on 1999 results as any market upturn generally precedes an increase in shipments by six to twelve months.

SALES AND BOOKINGS

Bookings, or incoming orders for which there are purchase commitments, for the first six months of 2000, were $620.1 million, 23.0% higher than the first half of 1999 when bookings were $504.2 million. Excluding Invatec, bookings also showed year-on-year improvement of 5.3%. Sales increased 7.3% to $584.5 million for the six months ended June 30, 2000, compared with $544.6 million for the same period in 1999. Sales for the first half of 2000 would have been $501.2 million without the acquisition of Invatec, 8% below the first half of 1999.

Bookings were lower in 1999 at $1,039.3 million, compared with $1,082.5 million in 1998 and $1,172.4 million in 1997. Sales decreased to $1,061.3 million in 1999 from $1,083.1 million in 1998 and $1,152.2 million in 1997. Bookings and sales declines in 1999 were largely a result of the economic and market factors previously discussed.

There were several other factors that affected the comparison of 1999 to 1998 and 1998 to 1997. A stronger U.S. dollar, in relation to other currencies in which Flowserve conducts its business, had the effect of reducing both bookings and sales when compared with the prior year. The negative translation effect reduced 1999 bookings and sales by about 1% and 1998 bookings and sales by about 2%. The negative translation impact on net earnings was about 7% in 1999 and 2% in 1998.

Comparisons are also impacted by the divestitures of several businesses in 1997 that contributed about $18 million to both bookings and sales in 1997. Several acquisitions affected the comparability as well. Acquisitions made in late 1998 and 1999 added over $12 million to 1999 bookings and sales, compared



with 1998. In addition, acquisitions made in 1998 added about $14 million to 1998 bookings and sales, compared with 1997.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division ("RED") for pumps (prospectively to be known as Flowserve Pump Division); Flow Control Division ("FCD") for automated and manual quarter-turn valves, control valves and valve actuators; and Flow Solutions Division ("FSD") for precision mechanical seals and aftermarket services. Each division's results include aftermarket sales of spare parts.

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

| | ROTATING EQUIPMENT DIVISION | | | | |
|---|---|---|---|---|---|
| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (DOLLARS IN MILLIONS) | | | | |
| Sales | $412.8 | $371.5 | $353.2 | $189.7 | $155.7 |
| Operating income, before special items | 51.0 | 39.1 | 23.1 | 11.5 | 10.1 |

The sales decrease in 2000 was generally due to a reduced opening backlog of highly engineered pumps. Unfavorable currency translation also reduced sales by about 3%.

Sales of pumps and pump parts for the Rotating Equipment Division decreased to $353.2 million in 1999 from $371.5 million in 1998 and $412.8 million in 1997. The sales decline was generally due to reduced demand for chemical process pumps as Flowserve's chemical industry customers lowered their capital and maintenance spending in response to over-capacity in their industry. RED sales were also lower due to unfavorable pricing. RED sales decreased in 1998 compared with 1997 due to the same factors.

Operating income before special items, as a percentage of sales, increased to approximately 6.5% in first half of 2000 from about 6.1% in the comparable prior-year period. The operating income margin increased due to an improved gross margin resulting from an improved product mix and ongoing cost reduction efforts.

Operating income, before restructuring expenses and other special items, as a percentage of RED sales, declined to 6.5% in 1999 from 10.5% in 1998 and 12.4% in 1997. The decline was due to the lower volume of more profitable chemical process and vertical pumps, nuclear products and other parts and replacement business that more than offset the benefits of the merger integration program. The decline was also impacted by unfavorable pricing.

| | FLOW CONTROL DIVISION | | | | |
|---|---|---|---|---|---|
| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (DOLLARS IN MILLIONS) | | | | |
| Sales | $317.2 | $313.2 | $295.3 | $151.7 | $135.2 |
| Operating income, before special items | 47.0 | 43.8 | 25.1 | 15.1 | 16.2 |

The decrease in sales was due to reduced backlog at the beginning of the year and lower book-to-build volume during the period. Unfavorable currency translation also reduced sales by about 4%.

Sales of valves and valve automation products for the Flow Control Division declined to $295.3 million in 1999 from $313.2 million in 1998 and $317.2 million in 1997. The decrease was primarily due to increased price competition for valves and accessories and a decline in business levels of control valve products and a weaker chemical market that reduced demand and placed downward pressure



on selling prices. The sales decrease between 1998 and 1997 was partly offset by the acquisition of Valtek Engineering (United Kingdom licensee) in July 1998.

Operating income before special items, as a percentage of sales, was 12.0% in the first half of 2000, compared with 10.0% in 1999. The improved operating margin in 2000 was generally due to improved gross margins and lower operating expenses. These improvements were generally due to a favorable product mix and reduced costs principally related to the Company's restructuring program initiated in the fourth quarter of 1999.

Operating income, before restructuring expenses and other special items, as a percentage of FCD sales was 8.5% in 1999, compared with 14.0% in 1998 and 14.8% in 1997. The decline in 1999 was primarily due to severe price erosion, an unfavorable product mix and lower sales volume. The decline in 1998 from 1997 was generally due to the lower sales volume. Operating income in 1998 was also affected by lower selling prices and a reduced volume of higher profit spare parts.

| | FLOW SOLUTIONS DIVISION | | | | |
|---|---|---|---|---|---|
| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (DOLLARS IN MILLIONS) | | | | |
| Sales | $430.1 | $428.5 | $438.5 | $217.9 | $308.4 |
| Operating income, before special items | 62.7 | 65.1 | 56.1 | 27.9 | 35.4 |

Sales were higher than the prior-year period generally due to the acquisition of Invatec. The increase in sales was offset slightly by an unfavorable currency translation which reduced sales by about 2%.

Sales of seal products and services for the Flow Solutions Division increased to $438.5 million in 1999, compared with $428.5 million in 1998 and $430.1 million in 1997. The sales increase primarily resulted from the addition of new service and repair centers while seal sales remained stable as a result of increased market share.

Operating income before special items, as a percentage of sales, decreased to 11.5% from 12.8% in the first half of 1999. The lower margins were generally due to the acquisition of Invatec, as Invatec's gross margins are historically lower than the balance of FSD operations, and period integration expenses relating to the Company's 1999 restructuring program.

Operating income, before restructuring expenses and other special items, as a percentage of FSD sales, decreased to 12.8% in 1999 from 15.2% in 1998 and 14.6% in 1997. The decrease in 1999 from 1998 was due to lower margins in the service group that was impacted by competition and facility underutilization in certain markets. The improved margin in 1998 compared to 1997 is due to the leveraging of a higher volume of sales and the benefits of the merger integration program, partly offset by a seal mix change to lower-margin products.

OPERATIONS

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

The gross profit margin was 34.6% for the six months ended June 30, 2000, compared with 35.0% for the same period in 1999. The slight decrease was due to the lower margins associated with Invatec. Excluding Invatec, margins were 0.7 percentage points above the prior year.

Selling and administrative expense as a percentage of net sales was 24.3% for the six-month period ended June 30, 2000, compared with 24.5% for the corresponding 1999 period. The slight decrease was due to the Company's cost reduction initiatives which more than offset period costs incurred as a result of the Company's 1999 restructuring program and costs associated with Flowserver, the Company's global business process improvement initiative. Flowserver expenses totaled $2.5 million in the first half of 2000. In 1999, Flowserver expenses were $7.8 million and were identified and disclosed separately as merger integration expense.



Research, engineering and development expense was $12.4 million for the first six months of 2000, compared with $13.2 million during the same period last year. The lower level of spending was generally the result of cost control initiatives and the reallocation of resources to assist in project engineering.

Interest expense during the first half of 2000 was $13.6 million, up $6.4 million from the same period in 1999 due to higher interest rates and the increased borrowing levels required to acquire Invatec stock and retire debt obtained in the acquisition.

The Company recorded other income of $3.2 million during the six months ended June 30, 2000 primarily as a result of two factors. Income of $1.1 million was realized due to the quarterly mark-to-market adjustments requirement under the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Agreements Where Amounts Earned Are Held in a Rabbi Trust and Invested". In addition, $1.0 million of income was recorded as a result of the Company reaching an agreement and receiving payment on an outstanding promissory note which had previously been fully reserved.

The Company's effective tax rate for the first half of 2000 was 34.5% compared to 34.0% in the first half of 1999. The increase was due to the acquisition of Invatec.

Net earnings for the first half of 2000 were $24.5 million or $0.65 per share. This was 30.0% above net earnings of $18.9 million, or $0.50 per share, for the same period in 1999. Excluding special items, net earnings for the first

half of 1999 were $24.1 million or $0.64 per share.

1999 compared to 1998 and 1997

Gross profit margin, or gross profit as a percentage of sales, declined to 34.2% in 1999 from 38.4% in 1998 and 39.0% in 1997. The 1999 margin included $5.1 million in one-time costs relating to inventory and fixed asset impairments. The lower margin in 1999 related to these impairments along with underabsorption variances due to lower sales, lower selling prices and a less favorable product mix. These reductions were partly offset by savings related to Flowserve's merger integration program that reduced cost of sales by approximately $5 million. The lower margin in 1998 was generally related to valve price discounting and a product mix change toward lower margin products. These factors and lower sales contributed to a decline in gross profit dollars to $363.4 million in 1999 from $415.4 million in 1998 and $448.9 million in 1997.

Selling and administrative expense was $275.9 million in 1999 compared with $265.6 million in 1998 and $285.9 million in 1997. Selling and administrative expense in 1999 included $5.8 million in costs for executive separation contracts and certain costs relating to fourth-quarter 1999 facility closures while 1998 included $3.8 million in costs associated with an obligation under an executive employment agreement. As a percentage of sales, selling and administrative expense was 26.0% (25.5% when adjusted for the special items), compared with 24.5% (24.2% when adjusted for the executive employment agreement) in 1998 and 24.8% in 1997. The increase in 1999 was generally due to expenses related to the implementation of a consolidated benefit program and other personnel related costs as well as lower sales. Reductions in selling and administrative expense in 1998 compared to 1997 were generally due to savings from merger integration activities of about $12 million and lower sales.

Research, engineering and development expense was $25.6 million in 1999, compared with $26.4 million in 1998 and $26.9 million in 1997. The decline in these expenses in 1999 is related to reallocation of some resources to assist in project engineering and cost controls.

Interest expense was $15.5 million in 1999, compared with $13.2 million in 1998 and $13.3 million in 1997. The increase in 1999 is primarily due to higher interest rates and increased average borrowings due to the share repurchase program initiated in the second quarter of 1998.



The effective tax rate, excluding special items, was 33.3% in 1999, compared with 34.9% in 1998 and 36.9% in 1997. The decrease in 1999 was due to the geographic mix of earnings while the decrease in 1998 was due to the geographic mix of earnings and post-merger restructuring of operations. The effective tax rate after special items in both 1999 and 1998 was the same as the effective tax rate excluding special items. In 1997, the effective tax rate was 42.6% due to the nondeductibility of certain merger transaction expenses, partly offset by certain tax benefits realized from the sale of a subsidiary.

Earnings after special items were $12.2 million in 1999, compared with $48.9 million in 1998 and $51.6 million in 1997. Special items include restructuring charges, merger integration expense, merger transaction expense, inventory and fixed asset impairments, costs associated with obligations under executive employment and separation agreements, a gain on the sale of a subsidiary and the cumulative effect of a change in accounting principle. Earnings before special items were $39.5 million in 1999, compared with $74.9 million in 1998 and $82.1 million in 1997. The decline in earnings in 1999 was largely due to the decline in sales and a lower gross profit margin.

The restructuring charge of $15.9 million in 1999 was related to the closure of 10 facilities and a corresponding reduction in workforce at those locations while the restructuring charge of $32.6 million in 1997 was related to Flowserve's merger integration program. Merger integration expense was $14.2 million in 1999, $38.3 million in 1998 and $7.0 million in 1997. Merger integration expense in 1999 related solely to Flowserve's business process improvement initiative, "Flowserver". Merger integration expense in 1998 and 1997 was principally related to the consolidation of the business units and headquarters, plant closures and the formation of the Services Group of the Flow Solutions Division. Merger transaction expense of $11.9 million in 1997 was for severance and other expenses triggered by the merger of BW/IP and Durco, and

investment banking fees, legal fees and other costs required to effect the merger. In 1999, Flowserve recorded special items of $5.1 million for inventory and fixed asset impairments in cost of sales and special items of $5.8 million for executive separation contracts and certain costs relating to fourth-quarter 1999 facility closures in selling and administrative expense. In 1998, Flowserve recognized an obligation under an executive employment agreement of $3.8 million recorded in selling and administrative expense. In 1997, Flowserve sold its Metal Fab subsidiary and realized a pre-tax gain of $11.4 million. The change in accounting principle resulted in a one-time cumulative net of tax benefit of $1.2 million in 1998. The accounting change was due to the required adoption of EITF 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested."

RESTRUCTURING

In the fourth quarter of 1999, Flowserve initiated a restructuring program designed to streamline Flowserve for better value and improve asset utilization. This $26.7 million program consists of a one-time charge of $15.9 million recorded as restructuring expense and $10.8 million of other special items. The restructuring charge related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations, as well as at other locations that are part of the restructuring. The other special items relate to inventory impairments and a fixed asset impairment totaling $5.1 million, and executive separation contracts and certain costs related to fourth-quarter 1999 facility closures of $5.8 million. The inventory impairments relate to the rationalization of certain low-margin product lines and the related inventory writedown. The fixed asset impairment relates primarily to the reduction in fair market value of a facility. The impairment amounts are included in cost of goods sold while the remaining items are recorded as selling and administrative expenses.

Flowserve expects to realize ongoing annual operating income benefits of approximately $20 million per year effective in 2001. Approximately $10 million in savings is expected to be realized in selling and administrative expenses while the remainder is expected in costs of sales.

In 2000, period integration costs related to the implementation of the program are expected to offset any potential benefit to operating income. Current estimates are that planned savings of approximately $10 million will be offset by period integration costs.



Additionally, in 2000, a majority of the costs associated with the restructuring program will be incurred and charged against the remaining restructuring reserve.

The restructuring program is expected to result in a net reduction of approximately 300 employees. As of June 30, 2000, the program has resulted in a net reduction of 149 employees. Expenditures charged to the restructuring reserve as of June 30, 2000 were:

| | SEVERANCE | OTHER EXIT COSTS | TOTAL |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Balance at December 24, 1999 | $12.9 | $ 3.0 | $15.9 |
| Cash expenditures | (0.1) | -- | (0.1) |
| Balance at December 31, 1999 | 12.8 | 3.0 | 15.8 |
| Cash expenditures | (1.7) | (0.6) | (2.3) |
| Balance at March 31, 2000 | 11.1 | 2.4 | 13.5 |
| Cash expenditures | (1.3) | (1.0) | (2.3) |
| Balance at June 30, 2000 | $ 9.8 | $ 1.4 | $11.2 |

MERGER INTEGRATION PROGRAM

In 1997, Flowserve developed a program designed to achieve the synergies planned for the merger of BW/IP and Durco. The program included facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training and support for service operations. In the fourth quarter of 1997, Flowserve recognized a one-time restructuring charge of $32.6 million, excluding Flowserver, in connection with this program. Other non-recurring expenses related to the merger (merger integration expense) were incurred in 1998 and 1997 in order to achieve the planned synergies. These expenses of $33.2 million and $7.0 million, respectively were principally for costs for consultants, relocation and training.

As of June 30, 1999, the restructuring portion of the merger integration had been completed. Flowserve paid severance to approximately 331 employees at a cost of $22.4 million.

In 1999, Flowserve realized approximately $37.3 million in operating income benefit related to the merger compared with about $21.3 million in 1998. By 2001, Flowserve expects to achieve $45 million to $55 million of annual operating income benefit from this program. The benefits are expected to result from eliminating cost redundancies, capturing procurement savings and realizing earnings increases from sales synergies.

In the week following Flowserve's acquisition of IDP, the Company announced its progress in making facility consolidations and reducing employment levels by approximately 1,100 positions as part of working to realize the estimated $75 million in annual synergies expected by December 2001. The majority of these reductions are planned to occur before December 31, 2000. The Company expects to complete all consolidation actions within 15 months.

Flowserve also will divest eight pump lines, and the repair and service centers in Batavia, Ill., and La Mirada, Calif., and its manufacturing facility in Tulsa, Okla., as part of its antitrust agreement with the U.S. Department of Justice.

BUSINESS PROCESS IMPROVEMENT INITIATIVE

In 1998, Flowserve's Board of Directors approved a $120.0 million expenditure for "Flowserver." This business process improvement program was planned to have costs and benefits incremental to the initial merger integration program. Effective January 1, 1999, merger integration costs relate solely to Flowserver. Flowserver includes the standardization of Flowserve's processes and the implementation of a global information system to facilitate common practices. In 1999, Flowserve incurred costs associated with this project of $14.2 million recorded as merger integration expense and $11.4 million as capital expenditures.



In 1998, these costs were $5.1 million recorded as merger integration expense and $1.5 million as capital expenditures.

Flowserve has re-evaluated the Flowserver project and its 2000 investment in Flowserver is expected to be approximately one-half the 1999 level. In addition, the overall duration of the program will extend beyond its originally planned five years and the scope will be scaled back significantly. Costs prior to 2000 related to the development of a common business model. Costs in 2000 generally relate to implementation and will no longer be identified separately as merger integration expense. Instead, beginning with the first quarter of 2000, Flowserver costs are classified as selling and administrative expense.

INGERSOLL-DRESSER PUMP COMPANY

OVERVIEW

IDP was formed in October 1992 when Ingersoll-Rand Company and Dresser Industries merged their respective pump divisions to form Ingersoll-Dresser Pump Company, a 51%/49% partnership. IDP is considered an industry leader with over 150 years of experience and expertise as one of the world's leading pump designers, engineers and specialists. Ingersoll-Dresser Pump Company, headquartered in Liberty Corner, New Jersey, is a leading full service pump manufacturer providing a broad array of pump products and services to various worldwide markets. IDP's product portfolio is among the most diverse in the

industry with 40 product families and over 90 discrete product types serving twelve broad end-market segments.

In September 1998, Dresser Industries, IDP's 49% holder, completed its merger with Halliburton Company, which resulted in Halliburton Company acquiring Dresser Industries' 49% interest in IDP. In August 1999, Ingersoll-Rand announced its intention to terminate the IDP partnership and exit the industry due to changes in Ingersoll-Rand's strategic direction. As provided for in the IDP partnership agreement, Halliburton Company sold its interest in IDP to Ingersoll-Rand Company, at which point IDP became a wholly owned business unit of Ingersoll-Rand Company in December 1999.

RESULTS OF OPERATIONS

The following table sets forth summary categories of statements of operations data as a percentage of net sales:

| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 73.7 | 72.9 | 72.8 | 74.0 | 77.0 |
| Gross profit | 26.3 | 27.1 | 27.2 | 26.0 | 23.0 |
| Selling and administrative expenses | 18.9 | 18.6 | 19.3 | 20.0 | 21.0 |
| Operating income | 4.8 | 7.7 | 7.4 | 5.7 | 1.6 |
| Interest expense | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Earnings before income taxes | 5.1 | 8.3 | 8.2 | 6.3 | 1.7 |
| Net income (loss) | 3.6 | 6.5 | 5.9 | 3.8 | (0.7) |

In general, IDP's results for the six months ended June 30, 2000 reflect the weakness of bookings encountered during mid-1999 and the impact of additional costs recognized as a result of the December 1999 purchase of the partnership interest from Halliburton by Ingersoll-Rand. As a result of applying pushdown accounting for the December 1999 purchase for the six months ended June 30, 2000, IDP has recorded additional depreciation and amortization and higher cost of sales for inventory on hand at December 31, 1999. IDP's 1999 results were lower than the prior years due to trends in the global markets in which IDP participates. Historically low oil prices reduced capital spending by the major oil and chemical companies. This was further compounded by, among other things, significant strategic combinations of oil companies, such as BP Amoco and ExxonMobil, resulting in volume reductions which



reduced IDP's overall performance below expectations. The economic turmoil that started in Asia in the second half of 1997 spread to other parts of the world, including Latin America. In addition, IDP's operations were negatively affected by reduced spending in the North American agricultural market.

SALES AND BOOKINGS

First half 2000 bookings at $453.3 million were $50.1 million, or 12%, above the $403.2 million bookings level experienced in 1999. The year over year growth occurred in both the engineered pump and industrial pump product areas, with the most significant increase appearing in the industrial water markets served by IDP's European businesses. There was also evidence of strengthening in the North American general industrial and power industries, though to a lesser extent than in the water treatment segment. In addition, there was noticeable improvement in the South American and Asia Pacific regions, which appear to be recovering from the depressed levels of business experienced last year.

Complete pumps bookings of $279.2 million were $35.5 million, or 15%, greater than the $243.7 million booked in the first half last year. Parts bookings of $115.7 million increased by $11.0 million, or 10.5%, while repairs and service bookings of $58.4 million increased by $3.4 million, or 6.2%, when compared with the prior year.

Sales for the first half of 2000 totaled $363.4 million, down $36.1 million, or 9% from sales of $399.5 million in the comparable period in the prior year. The decline in sales was experienced within both the engineered and the industrial pumps product areas. The decline in engineered pump sales is directly related to entering the year with a lower level of shippable backlog for the hydrocarbon processing industry, whereas prior years' bookings were negatively impacted by the low world oil price. The decline in industrial pump sales was primarily due to the scheduled timing of backlog, where significant order volumes are scheduled for shipment later in the year. In addition, the decline in the value of the euro relative to the dollar had a significant negative impact on sales in IDP's European markets.

Bookings were lower in 1999 at $826.6 million, compared with $925.9 million in 1998 and $919.7 million in 1997. Sales totaled $838.4 million in 1999, down from $907.2 million in 1998 and down from $865.1 million in 1997. Bookings and sales declines in 1999 were largely the result of reduced activity within the hydrocarbon processing industry that was adversely affected by the low oil prices throughout most of the year.

The substantial decline in spending by the American farming industry, resulting from depressed agricultural commodity prices, negatively affected one of IDP's most profitable product areas. The financial crisis in Brazil, which spread throughout Latin America, reduced the normal sales volume in that geographic region below the prior years' levels.

In total, sales outside the United States were $484.6 million, $562.2 million and $574.0 million in 1999, 1998 and 1997, respectively. Foreign sales have declined during the past two years. The decline was primarily due to the deteriorating economic conditions throughout the Asia Pacific region, which began in late 1997 and continued through the end of 1999. In addition, the Brazilian currency crisis, which began in early 1999, had a depressing impact on all of the neighboring Latin American economies, resulting in a reduction in our bookings and sales within that geographic region.

BUSINESS SEGMENTS

IDP manages its operations through two business segments: engineered pumps and industrial pumps. Though there is some cross-over as each end user market is not exclusively tied to these two business segments, the engineered pump markets primarily include hydrocarbon processing, marine and navy, oil and gas production, pipeline, power generation and water resources, while the industrial pump markets primarily include agriculture, chemical processing, general industrial, mining, primary metals, pulp and paper and water resources.



Sales and operating income before special items, as described below, for the two business segments were as follows:

| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (DOLLARS IN MILLIONS) | | | | |
| Engineered pumps | | | | | |
| Sales | $534.0 | $577.1 | $569.7 | $ 262.5 | $ 235.6 |
| Operating income | 31.1 | 47.5 | 48.4 | 15.3 | 5.9 |

Sales of engineered pumps decreased by $26.9 million to $235.6 million in the first half of 2000 from $262.5 million in the first half of 1999. The sales decline consisted almost entirely of reduced sales volume within two business units and were primarily related to the adverse impact on shipments of depressed conditions in the hydrocarbon processing industry.

Operating income as a percentage of sales declined to 2.5% in the first half of 2000 from 5.8% in the comparable period in the prior year, due principally to lower sales volumes, as well as less favorable sales mix, and less weighting toward spare parts and repair compared with the prior year and

the impact of pushdown accounting.

Sales of engineered pumps decreased slightly to $569.7 million in 1999 from $577.1 million in 1998, but were 6.7% greater than the $534.0 million of sales in 1997. The sales decline in 1999 was primarily attributable to reduced spare parts shipments resulting from curtailment of oil and gas plant maintenance spending due to low oil prices and volume decreases resulting from significant strategic combinations of oil companies such as BP Amoco and ExxonMobil.

Operating income as a percentage of sales improved to 8.5% in 1999 from 8.2% in 1998 and 5.8% in 1997. The improvement in operating margin experienced in 1999 was accomplished despite the moderate sales decrease, as manufacturing cost improvements were realized and expense controls were maintained.

| | FISCAL YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 1999 | 2000 |
| | (DOLLARS IN MILLIONS) | | | | |
| Industrial pumps | | | | | |
| Sales | $331.1 | $330.1 | $268.7 | $137.0 | $127.8 |
| Operating income | 34.0 | 30.3 | 11.9 | 7.7 | 3.5 |

Sales of industrial pumps decreased $9.2 million, to $127.8 million in the first half of 2000, from $137.0 million in the first half of 1999. The sales decline was due principally to the negative impact of currency translation.

Operating income as a percentage of sales declined to 2.7% for the first half of 2000 from 5.6% in the comparable period in the prior year, primarily due to the reduced shipment volume within these business units servicing the agriculture and chemical industries and the impact of pushdown accounting. In addition, the weakness of the European currency negatively impacted the sector's financial performance.

Sales of industrial pumps decreased to $268.7 million in 1999 from $330.1 million in 1998 and $331.1 million in 1997. The sales decline was generally due to the decline of the North American agriculture industry, the Brazilian financial crisis and its negative impact on most of the Latin American economies, and the downturn in both the chemical and water resources markets in the United Kingdom.

Operating income as a percentage of industrial pump sales declined to 4.4% in 1999 from 9.2% in 1998 and 10.3% in 1997. The decline in operating margin was directly related to the same negative factors impacting the sales volume noted above.



OPERATIONS

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Gross profit margin for the first quarter of 2000 declined to 23.0% from 26.0% in the comparable period in the prior year. This decline is the combined result of a less favorable sales mix of spare parts versus complete pumps, sales volumes, and the impact of pushdown accounting on cost of sales.

Selling, general and administrative expense was $76.4 million, or 20.9% of sales, in 2000 compared with $79.8 million, or 20.0% of sales in 1999. The decline in costs relates to reduced sales volumes and cost control efforts, net of the impact of pushdown accounting.

Research, engineering and development expense was $1.3 million for the six months ended June 30, 2000, compared with $1.5 million for the same period in 1999. The decline in these costs in 2000 related to cost control efforts previously put in place.

Interest expense was $0.5 million in 2000 compared to $0.8 million for the

first half of 1999.

The effective tax rate was 140.0% in the first half of 2000, compared with 40.0% in the first half of 1999. The increase was due primarily to losses in the US that can not be offset against income generated in foreign jurisdictions. No U.S. federal or state taxes were paid by IDP because it is a partnership for U.S. tax purposes. Under U.S. tax law, such taxes are levied upon the partners rather than the partnership.

Earnings before income taxes as a percentage of sales were 1.7% in the first half of 2000 down from 6.3% in the comparable period in the prior year.

1999 Compared to 1998 and 1997

Gross profit margin remained relatively unchanged at 27.2% in 1999 compared with 27.1% in 1998, while reflecting an improvement when compared with 26.3% in 1997. While gross profit margin in 1999 was relatively unchanged from 1998, IDP experienced an improving trend in standard margins for complete pumps, spare parts and repairs and services, as a result of a change in sales mix. Higher margin spare parts sales contributed a reduced share of total sales in 1999 compared to 1998.

Selling and administrative expense was $162.1 million in 1999 compared with $168.9 million in 1998 and $163.1 million in 1997. Selling and administrative expense in 1999 included $3.1 million of non-recurring consultant expenses and $0.9 million of severance expense. The decreased spending level in 1999 was primarily attributable to the combined impact of reduced commission expense and reductions in expense spending levels throughout the selling and administrative areas. As a percentage of sales, selling and administrative expense was 19.3% in 1999 due to reduced sales, compared with 18.6% in 1998 and 18.9% in 1997. Selling and administrative expense increased by $5.8 million from 1997 to 1998 principally due to increased commissions on higher sales volume and due to higher expenses related to consultants, marketing initiatives and operational improvement initiatives.

Research, engineering and development expense was $3.0 million in 1999, compared with $3.8 million in 1998 and $3.6 million in 1997. The decline in spending during 1999 was the result of overall expense reductions necessitated by the reduced business volume.

Interest expense was $1.4 million in 1999, compared with $1.6 million in 1998 and $1.3 million in 1997.

The effective tax rate was 27.7% in 1999, compared with 22.0% in 1998 and 29.7% in 1997. The increase in 1999 was due to greater earnings in the higher taxed foreign entities compared with 1998. No U.S. federal or state taxes are paid by IDP because it is a partnership for U.S. tax purposes. Under U.S. tax law, such taxes are levied upon the partners rather than the partnership.

Earnings were $49.5 million in 1999, compared with $58.7 million in 1998 and $31.3 million in 1997. Special items include restructuring charges. Earnings before special items were $49.7 million in 1999, compared with $62.3 million in 1998 and $50.8 million in 1997. The decline in earnings in 1999 was



primarily due to reduced sales volume. Sales declined under the pressure of low world oil prices, the downturn in the Asia Pacific and Latin American economies and reduced spending in the North American agriculture industry.

OUR LIQUIDITY AND CAPITAL RESOURCES FOLLOWING THE TRANSACTIONS

Following the Transactions, our debt capitalization consists of $375.0 million aggregate principal amount of the notes and $750.0 million under our Senior Credit Facilities. Under our Revolving Credit Facility we had unused borrowing capacity, net of issued letters of credit, of approximately $270.0 million, on a pro forma basis, as of June 30, 2000. The borrowings under the Senior Credit Facilities and the notes will increase debt service costs. The notes mature in 2010. The Senior Credit Facilities and the indentures under which the notes are issued will limit our ability, among other things, to incur additional debt, to pay dividends, to redeem capital stock and to sell certain assets. We may incur additional indebtedness under the indenture as long as our Consolidated Coverage Ratio, as defined, is greater than certain minimum levels

or if such additional indebtedness fits within certain exceptions. Loans under the Senior Credit Facilities mature from 2006 to 2008. We believe that based on current financial performance and anticipated growth, cash flow from operations, together with the available sources of funds including borrowings under the Senior Credit Facilities, will be adequate to make required payments of interest on our indebtedness, to fund anticipated capital expenditures and working capital requirements and to enable us to comply with the terms of our debt agreements. Our actual capital requirements may change, particularly as a result of acquisitions we may make, although no acquisitions are currently contemplated. We expect that our capital expenditures (exclusive of acquisitions) in 2000 will be approximately $40 million. We believe that these capital expenditures will be sufficient to maintain our equipment and to provide additional planned manufacturing capabilities and upgrades. Our future operating performance and ability to service or refinance the notes and to extend or refinance the Senior Credit Facilities will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

HISTORICAL LIQUIDITY AND CAPITAL RESOURCES OF FLOWSERVE

Cash flows from operations and financing available under existing credit agreements are Flowserve's primary sources of short-term liquidity. Cash flows from operating activities for the first six months of 2000 were significantly below the same period in 1999. The decrease in cash flows in 2000 was primarily due to payments relating to the restructuring program and Invatec acquisition. Cash flows from operating activities in 1999 increased to $81.9 million, compared with $54.1 million in 1998 and $90.0 million in 1997. The increase in cash flows in 1999 was primarily due to Flowserve's increased focus on capital utilization and reduced merger integration costs. The decrease in cash flows in 1998 compared to 1997 was primarily due to cash expended for restructuring and lower operating profits.

Capital expenditures, net of disposals, were $12.4 million during the first six months of 2000, compared with $20.2 million in the first six months of 1999. The reduction reflects a concerted effort by the Company to reduce capital spending. Capital expenditures were funded primarily by operating cash flows.

On January 13, 2000, Flowserve acquired Invatec, a company which is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The transaction was accounted for under the purchase method of accounting and was financed through the borrowings under the revolving credit facility. The results of operations for Invatec are included in Flowserve consolidated financial statements from the date of acquisition. The purchase price was approximately $18.3 million in cash. Liabilities of $94.9 million were simultaneously paid through borrowing under Flowserve's revolving credit agreement.



The purchase price has been allocated to the net assets acquired based primarily on information furnished by management of the acquired company. The preliminary estimated fair value of net identifiable assets acquired exceeded the purchase price by $4.3 million, which resulted in net additional goodwill of $48.6 million at the time of the purchase. The final allocation of the purchase price will be determined in a reasonable time and will be based on a complete evaluation of assets acquired and the liabilities assumed. Accordingly, the information presented herein may differ from the final purchase price allocation.

During the second quarter of 1998, Flowserve initiated a $100.0 million share repurchase program. In 1998, Flowserve spent approximately $64.5 million to repurchase approximately 2.8 million, or 7.1%, of its outstanding shares. During 1999, Flowserve spent approximately $5.3 million to purchase an additional 325,300 shares. Flowserve generally used credit facilities to fund the purchases. Future repurchases may be restricted under the notes and the Senior Credit Facilities.

In October 1999, Flowserve entered into a revolving credit agreement that replaced its then-existing agreement. At June 30, 2000, Flowserve had borrowings

outstanding of $263.0 million and $4.0 million in issued letters of credit, and availability of $193.0 million under the revolving credit agreement. At June 30, 2000, total debt was 50.0% of Flowserve's capital structure compared with 39.6% at December 31, 1999. At December 31, 1999, total debt was 39.6% of Flowserve's capital structure, compared with 37.2% at December 31, 1998. The ratio at December 31, 1999 increased due to Flowserve's 1999 restructuring charge and the negative currency translation effect. The interest coverage ratio of Flowserve's indebtedness was 5.3 times interest at June 30, 2000, compared with 4.3 times interest at December 31, 1999, compared with 9.5 times interest at December 31, 1998.

During October 1999, Flowserve purchased certain assets and liabilities of Honeywell's industrial control-valve product line and production equipment located near Frankfurt, Germany. Flowserve completed the phased move of this operation to its existing control-valve manufacturing facilities in Europe by June 30, 2000. In October 1999, Flowserve also acquired R&C Valve Service, Inc. The assets of this company were integrated into Flowserve's existing services and repair center network during the fourth quarter of 1999.

On February 9, 2000, the Company announced it had reached a definitive agreement to acquire Ingersoll-Dresser Pump Company (IDP) from Ingersoll-Rand Company for $775 million in cash. On August 8, 2000, the Company announced the completion of the acquisition. The transaction, which was accounted for as a purchase, was financed with a combination of bank financing and senior subordinated notes. Upon closing of the transaction, the existing Flowserve debt was repaid. Flowserve has received $1,425 million of financing to pay for the acquisition and pay off existing debt as well as provide for a $300 million revolving credit facility in connection with the acquisition. The financing consists of approximately $375 million of 12.25% Senior Subordinated Notes due in ten years and $1.05 billion of senior credit facilities. The credit facilities consist of a $275 million term loan with a final maturity of six years and an initial interest rate of LIBOR plus 2.75%, a $475 million term loan with a final maturity of eight years and an initial interest rate of LIBOR plus 3.50%, and a $300 million revolving credit facility with a term of six years and an initial interest rate of LIBOR plus 2.75%. During the first quarter of 2000, the Company also announced it was suspending the payment of its cash dividend which is required by the financing. The Company believes that internally generated funds, including synergies from the IDP acquisition, will be adequate to service the debt.

At June 30, 2000, total debt was 50.0% of the Company's capital structure, compared with 39.6% at December 31, 1999. The interest coverage ratio of the Company's indebtedness was 5.3 times interest at June 30, 2000, compared with 4.3 times interest at December 31, 1999.

HISTORICAL LIQUIDITY AND CAPITAL RESOURCES OF IDP

Generally, IDP's primary source of short-term liquidity is through cash flows from operations. Cash flows from operations were $53.5 million in 1999, $77.4 million in 1998 and $63.3 million in 1997. The decrease in cash flows in 1999 was primarily due to a decrease in accounts payable and accruals as



compared to the year ended December 31, 1998. Cash flows from operations for the first half of 2000 were a net outflow of $1.7 million, primarily as a result of a higher level of receivables at June 30, 2000 as compared with the end of 1999.

Capital expenditures have remained fairly consistent at $18.2 million in 1999, $20.2 million in 1998 and $16.3 million in 1997. Capital expenditures for the first six months of 2000 were $4.8 million compared to $5.8 million in the first six months of 1999.

As a partnership, IDP provides excess cash to the partners. Amounts transferred to the partners increased from $43.0 million in 1997 to $69.8 million in 1998. The increase in amounts transferred results primarily from the increase in cash flow provided by operations. At December 31, 1999, the amount due from the partners, other than amounts relating to trade receivables and payables, was transferred to equity, as a result of the acquisition by Ingersoll-Rand of Halliburton's 49% interest in IDP and thereby IDP becoming a wholly owned entity of Ingersoll-Rand. In addition, at December 31, 1999, there were loans from IDP foreign subsidiaries to Halliburton that had matured late in 1999 of $36.2 million. The IDP foreign subsidiaries retained the cash received on these matured loans in 1999, resulting in an increase in cash and cash

equivalents at December 31, 1999. These amounts, or portions thereof, were provided to Ingersoll-Rand in the first quarter of 2000.

INFLATION AND FOREIGN CURRENCY TRANSLATION

Inflation during the past three years had little impact on Flowserve's consolidated financial performance. Foreign currency translation had the effect of reducing sales by 1% and earnings by 7% in 1999 and both sales and earnings by 2% in 1998.

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS OF FLOWSERVE

Flowserve has certain market-sensitive financial instruments, including long-term debt and investments in foreign subsidiaries. To evaluate the risks associated with these instruments, Flowserve considered the impact of unfavorable changes in the rates or values of these instruments as of December 31, 1999. The market changes, assumed to occur as of December 31, 1999, to measure potential risk are a 100-basis-point increase in market interest rates, a 10% adverse change in all foreign currency exchange rates and a 10% decline in the value of its net investment in foreign subsidiaries.

Flowserve considered the impact of a 100-basis-point increase in interest rates and determined such an increase would not materially affect its earnings.

Flowserve employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. The primary currencies to which Flowserve has exposure are the German mark; British pound; Dutch guilder and other European currencies; the Canadian dollar; the Mexican peso; the Japanese yen; the Singapore dollar; and the Australian dollar.

Exposures are hedged primarily with foreign currency forward contracts that generally have maturity dates of less than one year. Flowserve's policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, Flowserve does not enter into foreign currency contracts for trading purposes where the objective is to generate profits. The potential loss in fair value at December 31, 1999, based on year-end positions of outstanding foreign currency contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates, would not be material. The potential loss would exclude hedges of existing balance sheet exposures as losses in these contracts would be offset by exchange gains in the underlying net monetary exposures for which the contracts are designated as hedges.

As a rule, Flowserve generally views investments in foreign subsidiaries from a long-term perspective, and therefore, does not hedge these investments. Flowserve uses capital structuring techniques to manage investment in foreign subsidiaries as deemed necessary. Net investment in foreign subsidiaries and



affiliates, translated into U.S. dollars using year-end exchange rates, was $113.8 million at December 31, 1999. A potential loss in value of net investment in foreign subsidiaries resulting from a hypothetical 10% adverse change in quoted foreign exchange rates at the end of 1999 would approximate $11.4 million.

There have been no material changes in reported market risk since the end of 1999.

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS OF IDP

IDP managed exposure to changes in foreign currency exchange rates through its normal operating and financing activities, as well as through the use of financial instruments. Generally, the only financial instruments IDP used were forward exchange contracts. IDP used sensitivity analysis to assess the market risk associated with its foreign currency transactions. Market risk is defined here as the potential change in fair value resulting from an adverse movement in foreign currency exchange rates. A 10% adverse movement in foreign currency rates would have resulted in a net loss of $7.0 million in 1999 on IDP's foreign currency forward contracts. The purpose of IDP's hedging activities was to mitigate the impact of changes in foreign currency exchange rates. IDP attempted

to hedge transaction exposures through natural offsets. To the extent this was not practicable, major exposure areas considered for hedging included foreign currency denominated receivables and payables, intercompany loans, firm committed transactions, anticipated sales and purchases, and dividends relating to foreign subsidiaries.

IDP maintained significant operations in foreign countries. A 10% adverse movement in foreign currency rates would have resulted in an unrealized loss of $18.0 million in 1999 on its net investment in foreign subsidiaries. However, since IDP viewed these investments as long term, they would not expect such a loss to be realized in the near term.

EURO CONVERSION

On January 1, 1999, 11 European Union member states (Germany, France, the Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Portugal and Luxembourg) adopted the euro as their common national currency. Until January 1, 2002, either the euro or a participating country's national currency will be accepted as legal tender. Beginning on January 1, 2002, euro-denominated bills and coins will be issued, and by July 1, 2002, only the euro will be accepted as legal tender. Flowserve does not expect future balance sheets, statements of earnings or statements of cash flows to be materially impacted by the euro conversion.

ACCOUNTING DEVELOPMENTS

In 1999, Flowserve adopted Financial Accounting Standards Board (FASB) Statement of Position (SOP) No. 98-1, "Accounting for Costs of Software Developed or Obtained for Internal Use." SOP 98-1 is effective for fiscal periods beginning after December 15, 1998 and establishes guidelines to determine whether software-related costs should be capitalized or expensed.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". As amended in June 2000, this bulletin will become effective in the fourth quarter of 2000. SAB 101 expresses the SEC staff's view regarding the application of generally accepted accounting principles to revenue recognition in financial statements. Management is still evaluating the impact of SAB 101 on reported financial position, results of operations and cash flows.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will become effective beginning January 1, 2001. SFAS No. 133 requires all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives will be recognized in earnings or other comprehensive income, depending on the designated purpose of the derivative.

During June 2000, FASB issued statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 is to be adopted concurrently with SFAS No. 133. These standards are not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.





## BUSINESS

GENERAL

We are the largest manufacturer and aftermarket service provider of comprehensive flow control systems in the world. We have been in the flow control industry for over 125 years. We develop and manufacture precision-engineered flow control equipment for critical service applications where high reliability is required. The flow control system components we produce include pumps, valves and mechanical seals. Our products and services are used in several industries, including petroleum, chemical, power generation and water treatment. We believe that our product portfolio is the most comprehensive and our scope of operations is the most geographically diversified in the industry. For the year ended December 31, 1999, we generated revenue of $2.1 billion.

We sell our products and services to more than 1,000 companies including some of the world's leading engineering and construction firms, OEMs,

distributors and end users. Our sales mix by industry in 1999 consisted of petroleum (39%), chemical (20%), power generation (14%), general industrial (14%), water treatment (6%) and other industries (7%). Some of our top customers include Asea Brown Boveri, ARCO, BASF, Bayer, Bechtel, BP Amoco, Dow Chemical, Duke Energy, DuPont, Eastman Chemical, ExxonMobil, Royal Dutch/Shell, Saudi Aramco, Texaco, TotalFinaElf and the United States Navy. No single customer accounted for more than 3% of our total revenues in 1999. Our revenues by geographic region in 1999 consisted of North America (55%), Europe and the Middle East (28%), Latin America (9%) and Asia (8%). We have pursued a strategy of geographic diversity to mitigate the impact of an economic downturn in any one part of the world on our business.

We believe we have an installed base of approximately 1,100,000 pumps worldwide, which we believe is the most extensive installed base of industrial pumps in the industry. A large installed equipment base is critical to securing future revenues as industry analysts suggest that approximately 86% of the total life-cycle cost of a pump consists of aftermarket products and services, such as replacement parts, mechanical seals and maintenance. When outsourced, a majority of replacement part orders and aftermarket service business is typically awarded to the original equipment manufacturer. Aftermarket parts and services have provided us with a steady source of revenues at higher margins than original equipment sales. In 1999, we generated approximately 49% of our revenues from aftermarket products and services.

We believe we are the largest manufacturer of pumps used in the petroleum and chemical industries, with approximately 59% of our 1999 sales from companies operating in those industries. Due to the simultaneous decline in oil and chemical prices in 1998 and 1999, many of our key customers reduced their capital spending, which resulted in declines in our revenues and EBITDA in those years. Additionally, the economic downturn in Asia in late 1997 and 1998 had a negative impact on our overall business in that region. With the strong recent recovery in oil prices to a year to date high of over $35.00 per barrel in 2000 from a low of $10.73 in December of 1998, higher expected chemical prices and renewed signs of economic growth in Asia, we are seeing renewed capital spending by our customers that should result in increasing bookings and revenues for us. In general, market improvements reflected in our bookings precede revenue growth by six to twelve months. We have already begun to see tangible signs of recovery in our petroleum and chemical end-markets as bidding activity and bookings are improving.

We believe we are well positioned to gain market share and increase revenues and EBITDA by (i) leveraging our leading market position; (ii) cross-selling our comprehensive product offerings; (iii) capitalizing on our customers' trend to outsource service and repair; (iv) realizing significant cost savings and operating synergies from the Acquisition; and (v) benefiting from the recent improvement of our end markets.

ACQUISITION RATIONALE

On February 9, 2000, Flowserve agreed to acquire all of the equity interests of IDP from Ingersoll-Rand for a consideration of $775.0 million. The acquisition was consummated August 8, 2000. IDP is a



leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries. As a result of the IDP acquisition, we expect to:

- be the second largest pump manufacturer in the world (improving from fifth and seventh largest for IDP and Flowserve, respectively);
- be the largest pump manufacturer for the petroleum, chemical and power generation industries;
- offer a more comprehensive range of products and services at a time when our customers are seeking to lower costs by reducing supplier relationships;
- expand our customer base in the water, general industrial, mining, paper, power and U.S. Navy sectors;
- diversify our customer and geographic sales mix, reducing the impact of

commodity price cycles and regional economic downturns; and

- triple Flowserve's installed equipment base to an estimated 1,100,000 pumps worldwide, creating a significant opportunity to capture additional recurring aftermarket replacement parts and service revenue.

The IDP acquisition also provides significant cost saving opportunities, which we estimate to be approximately $75.0 million by mid-2002. We will incur significant cash integration costs to achieve these cost savings. We expect these cost savings to result from the execution of a number of actions including:

- eliminating redundant administrative overhead;

- eliminating fixed costs by shifting overlapping sales personnel to more economic facilities; and

- rationalizing manufacturing capacity.

In addition to the tangible and identified cost savings, we also expect to benefit from significant operating synergies from several initiatives including:

- capitalizing on the opportunities to cross-sell valves, mechanical seals and aftermarket services to IDP customers that are currently being serviced by our competitors;

- realizing volume procurement savings; and

- lowering unit variable costs due to larger scale and better capacity utilization.

COMPETITIVE STRENGTHS

WORLDWIDE MARKET LEADER. We are the largest provider of comprehensive flow control systems in the world, offering an extensive range of pumps, valves, mechanical seals and aftermarket services. We are the largest pump manufacturer serving the petroleum, chemical and power generation industries and the second largest overall pump manufacturer in the world. We believe we are also the largest independent aftermarket product and service provider for the flow control industry. We have one of the most extensive global manufacturing and service networks in the industry, with 49 manufacturing facilities and more than 150 service and repair centers in 30 countries (after giving effect to planned facilities rationalization within the first twelve months after closing of the IDP acquisition). As the larger end users of flow control products continue to consolidate and operate globally, they seek providers that can offer a broad range of products and services on a global basis. Our widely recognized global brands, extensive breadth of product and service offerings and worldwide presence position us to serve our customers' flow control needs and capture additional business.

AFTERMARKET SERVICES PROVIDE STABLE, CONSISTENT REVENUES. Industry analysts estimate that approximately 86% of the lifetime cost of a pump consists of aftermarket replacement parts, services and maintenance. We have a strong and growing aftermarket business, representing approximately 49% of our 1999 revenues. The consistent requirement for maintenance and installation of replacement parts provides



us with a steady source of revenues from our aftermarket business at significantly higher margins than our original equipment business. As a result of Flowserve's historic focus on aftermarket services, we believe Flowserve has achieved approximately 50% higher aftermarket revenue per installed pump than IDP. The opportunity to leverage IDP's installed pump base to increase our aftermarket business provides us with significant potential for growth.

LARGE INSTALLED EQUIPMENT BASE. We believe our global installed base of approximately 1,100,000 pumps is the largest in the industry and provides us with a unique platform to grow our aftermarket service business. When outsourced, a significant amount of replacement parts orders and aftermarket services business is awarded to the original equipment manufacturer, assuming they provide those parts and services. We are well positioned to capitalize on IDP's large installed equipment base which is significantly larger than Flowserve's installed base, by utilizing our extensive service network of more

than 150 service and repair centers to cross-sell aftermarket products and services to IDP's pump customers.

PROVEN ABILITY TO INTEGRATE ACQUISITIONS. Flowserve's management team has extensive experience in acquiring and integrating companies, having completed 23 acquisitions since 1990. We completed the integration of the merger of Durco with BW/IP, which created Flowserve in 1997, approximately one year ahead of schedule and generated annual cost savings in excess of $37 million, which was approximately 10% greater than originally announced. We employ a systematic and decisive approach to integrating acquired companies by implementing best practices across our operations, rationalizing manufacturing capacity, eliminating overlapping sales and service coverage, reducing overhead costs, leveraging supply chain opportunities and developing additional cross-selling opportunities. Most of our key operating managers who led the integration of our predecessor companies, BW/IP and Durco, will be responsible for the integration of Flowserve and IDP. In order to integrate the IDP acquisition, we have a team of specialists from Flowserve, IDP and third party consultants exclusively dedicated to the integration.

GLOBAL MANUFACTURING AND SERVICE CAPABILITIES. After giving effect to planned facilities rationalization, we will have one of the most extensive global manufacturing and service networks in the industry, with 49 manufacturing facilities and more than 150 service and repair centers located in 30 countries. Our global operations help us serve our customers' manufacturing and aftermarket service needs on a 24-hour basis. Because of the critical nature of the applications in which our products are used, immediate response times are important to capturing and retaining our customer's business. Original equipment sales benefit from our global presence, as our customers often require real-time design and engineering assistance for new projects.

DIVERSE CUSTOMER MIX. We sell our products and services to more than 1,000 companies globally including the world's leading engineering and construction firms, OEMs, distributors and end users. In 1999, no one customer accounted for more than 3% of our revenues and our top ten customers accounted for approximately 11% of our revenues. Our customers operate in many industries throughout the world, including petroleum, chemical, power generation and water treatment. The IDP acquisition significantly increases our market share in the power and water industries, both of which are expected to continue to grow faster than the overall flow control industry.

COMPREHENSIVE PRODUCT OFFERINGS WITH LEADING BRANDS. We believe we offer the most comprehensive array of products and services in the industry, providing a "one-stop shop" for our customers, who increasingly require comprehensive flow control solutions including pumps, valves, seals and services. Many of our brands have an extensive history within our industry and are well-known for their superior quality and high performance, including Flowserve(R), Byron Jackson(R), Durco(R), Atomac(TM), BW Seals(R), Durametallic(R), United Centrifugal(R), Stork(R), Worthington(R), Jeumont Schneider(R), Pleuger(R), Pacific Wietz(TM) and Scienco(R). Our brand identity has created customer loyalty and helps us capture additional business, as well as maintain existing business, particularly as our customers look to procure from fewer manufacturers.

EXPERIENCED MANAGEMENT TEAM. Our senior management team has an average of over 25 years of experience in industrial manufacturing. In addition, this team has substantial experience in the integration of acquired businesses, supply chain management and lean manufacturing techniques. Our operating



division managers are among the most experienced in the flow control industry, with an average of more than 20 years of experience.

BUSINESS STRATEGY

EFFICIENTLY INTEGRATE THE ACQUISITION AND CAPITALIZE ON OPPORTUNITIES FOR OPERATING SYNERGIES. We have begun to quickly integrate IDP's business in order to capitalize on the significant operating and financial benefits of the IDP acquisition. We have established a dedicated integration team comprised of representatives from Flowserve, IDP and third party consultants that has created a detailed plan to capture cost savings and achieve operating synergies through: (i) eliminating redundant administrative overhead, (ii) cutting overlapping sales personnel, (iii) shifting production to lower cost facilities, and (iv) realizing volume procurement savings and other opportunities.

BECOME THE LOW COST PRODUCER AND INCREASE OPERATIONAL EFFICIENCY. We continue to lower costs, enhance product quality, reduce manufacturing inefficiency and increase product throughput. We have several initiatives in process to accomplish this, including:

- FOCUS ON SUPPLY CHAIN MANAGEMENT. Supply chain management focuses on reducing procurement costs. We have implemented several initiatives, including creating alliances, standardizing procedures, negotiating more favorable contract terms and conditions and forming dedicated teams for procurement of raw materials on a company-wide basis.

- INCREASE OPERATIONAL EFFICIENCY. In early 2000, Flowserve introduced a "lean" manufacturing program that is focused on optimizing the productivity and profitability of Flowserve's plants around the world. For example, in Flowserve's Kalamazoo, Michigan facility, Flowserve expects to experience in 2001 an approximate 25% increase in productivity, 25% reduction in work in process, 25% reduction in lead times and a significant increase in usable shop floor space.

- IMPLEMENT 6 SIGMA. The 6 Sigma Value Analysis process has been launched within IDP to accelerate improvement of processes, products and services. This analytical process is focused on reducing product defects, improving product quality and streamlining manufacturing and transactional processes. We believe this process resulted in total cost savings for IDP of approximately $10 million in 1999.

GROW AFTERMARKET SERVICE BUSINESS. Growing our aftermarket business is an essential aspect of our strategy which complements our manufacturing capabilities. Historically, many of our customers have utilized their in-house service capabilities and outsourced only the most technical portion of their service needs. Customers are increasingly utilizing third party aftermarket service providers like us to reduce their fixed costs and improve profitability. Our leading installed equipment base creates a powerful platform from which we can expand this business. Our aftermarket products and service business offers steady revenues with margins significantly higher than our original equipment sales and enables us to remain close to our customers and quickly address their requirements. We have significantly enhanced our aftermarket business with the acquisition of Invatec. Invatec focuses on valve service and repair, which complements Flowserve's pump and seal repair expertise, allowing us to expand the range of services offered to our customers.

PURSUE CROSS-SELLING OPPORTUNITIES. Historically IDP has focused on manufacturing pumps for the original equipment market. In contrast, Flowserve's strategy focuses on meeting the full range of end user needs from original equipment (pumps, valves and seals) to replacement parts and services. We plan to capitalize on the cross-selling opportunities created by Flowserve's comprehensive aftermarket business platform and IDP's extensive installed equipment base. In addition, significant opportunities exist to cross-sell valves and mechanical seals to IDP's pump customers, which are being primarily serviced by our competitors. Further, Invatec's expanded service center network provides an opportunity for us to extend pump repair coverage to Flowserve's and IDP's customer base.





OPERATIONS

We conduct our operations through three segments that encompass our primary product types: (i) Rotating Equipment Division (pumps); (ii) Flow Control Division (valves); and (iii) Flow Solutions Division (mechanical seals, repairs and service). Through our Flow Solutions Division, we provide aftermarket services. Through each of our segments, we provide aftermarket replacement parts.

[1999 SALES BY DIVISION 1999 EBITDA BY DIVISION]

YEAR ENDED DECEMBER 31, 1999
SALES BY DIVISION

YEAR ENDED DECEMBER 31, 1999
OPERATING INCOME BY DIVISION

| Flow Solutions | Flow Control | Rotating Equipment | Flow Solutions | Flow Control | Rotating Equipment |
|---|---|---|---|---|---|
| 29% | 14% | 57% | 35% | 15% | 50% |

Note: Amounts are pro forma for the IDP and Invatec acquisitions and exclude elimination of intercompany sales and corporate allocations.

ROTATING EQUIPMENT DIVISION ("RED"; 57% OF REVENUE)

Through our Rotating Equipment Division, we design, manufacture and distribute engineered pump systems, replacement parts and related equipment principally to industrial markets. Following the Acquisition, all of IDP's operations will be integrated into RED. The sales price for a RED product can range from $1,000 to $2.5 million. RED's products and services are primarily used by companies that operate in the petroleum, chemical processing, power generating, water treatment and general industrial markets. Following the facilities rationalization contemplated in connection with the Acquisition, we will manufacture our pump systems and components at eight plants in the United States, four in Latin America, ten in Europe and the Middle East and one in Asia. We also manufacture a small portion of our pumps through several foreign joint ventures. We market our RED products, which are primarily sold to end users and engineering and construction companies, through our worldwide sales force, regional services and repair centers, independent distributors and sales representatives.

RED Summary Segment Financials(1)

| | YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|---|
| | 1997 | 1998 | 1999 | PRO FORMA(2) 1999 |
| | (DOLLARS IN MILLIONS) | | | |
| Sales | $412.8 | $371.5 | $353.2 | $1,191.6 |
| Operating income before all special items | 51.0 | 39.1 | 23.1 | 80.2 |
| Bookings | 420.2 | 371.6 | 331.5 | 1,171.5 |
| Backlog | 167.7 | 164.2 | 143.1 | 506.3 |
| Identifiable assets | 301.2 | 285.6 | 223.0 | 1,333.4 |

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(1) Summary segment financials are before corporate headquarters costs and certain intercompany eliminations. These amounts are not discussed in "Business -- Operations" and therefore the amounts for each of our three segments will not agree in total to the consolidated figures found elsewhere in this prospectus. See note 13 of Flowserve's Audited Consolidated Financial Statements and note 7 of Flowserve's unaudited Interim Consolidated Financial Statements contained in this prospectus for additional segment information.

(2) Combines the historical results of Flowserve and IDP giving effect to the Pro Forma adjustments anticipated to be realized from the Acquisition. See note (1) to "Unaudited Pro Forma Consolidated Statement of Operations."



RED Products

We manufacture more than 350 different pump models, of which approximately 60-70% are highly engineered and designed for customized applications. These high horsepower engineered pumps are manufactured with a wide range of metal alloys and in a variety of configurations including pumps that utilize seals (sealed) and pumps that do not (sealless). We continually update our pump designs and materials for new technologies.

The following is a summary list of RED's general product types and globally recognized brands:

| PRODUCT TYPES | BRAND NAMES |
|---|---|
| - Chemical Process ANSI and ISO | - Byron Jackson(R) |
| - Petroleum Process API 610 | - Durco(R) |
| - Horizontal Between Bearing Single-stage | - United Centrifugal(R) |
| - Horizontal Between Bearing Multi-stage | - Wilson-Snyder(R) |
| - Vertical | - Flowserve(R) |
| - Submersible Motor | - Stork(R) |
| - Specialty | |
| - Nuclear | |

[PICTURE]

ENGINEERED HIGH PRESSURE DOUBLE CASE PUMP. This highly engineered double case pump is utilized in the power industry for boiler feed water service in central power stations and in the hydrocarbon industry for high pressure charge and water injection applications.

[PICTURE]

DURCO(R)CHEMICAL PROCESS PUMPS. We offer a broad line of Durco(R) chemical pumps which are widely recognized in the chemical and related process industries for their materials, expertise, engineering and ability to handle tough applications. Durco(R) process pumps are used in all areas of a chemical or petrochemical plant to move fluids through the facilities and have performed successfully in hundreds of thousands of applications involving corrosive and toxic substances in plants throughout the world.

[PICTURE]

BARREL TYPE PUMPS USED AS JET PUMP IN DECOKING SYSTEM. Barrel type pumps are critical for our decoker systems. Our decoker systems were developed by IDP. These pumps are responsible for breaking up coke deposits that form during the petroleum refinery process.

RED New Product Developments

Our investments in new product research and development have consistently led to producing longer lasting and more efficient pumps. The majority of our new products and enhancements are driven by our customers' needs to achieve higher throughput at lower costs with increased time between failure. Our research and development efforts are solutions based and performed both by dedicated personnel and throughout our manufacturing facilities. As a result, we continually work with our customers to develop better products to improve their operations. Some examples of our latest pump innovations, currently in production, include:

- POLYCHEM SEALED AND SEALLESS PUMPS. A range of fluoropolymer PFA lined, sealed and sealless pumps is being developed to American, European and Japanese standards. Many common components are included in the range of pump sizes, some of which are manufactured with



proprietary technology. Applications in the worldwide chemical and pharmaceutical industries include pumping of highly corrosive and toxic fluids.

- GENERAL INDUSTRIAL SUMP PUMP. A line of vertical sump pumps for a variety of general industrial applications including coolant, lube oil, filtration, paint, industrial waste, sump, spray and pickling.

- GLOBAL WATER PUMP. This is an integrated product platform encompassing horizontal (coupled and close-coupled), vertical sump and vertical cantilevered pumps utilizing common hydraulic components. The new product line will be based on a globally transportable design and will replace multiple legacy products manufactured at four of our locations.

- SEALLESS CANNED AXIAL FIELD MOTOR PUMP. This innovative product embodies

a unique design that effectively makes the pump an integral part of the motor. The design employs "built in" variable speed. The technology is a platform for a variety of pump applications and product variants including small sealless pumps for the process industries; specialty OEM applications (i.e., CO(2) dry cleaning); marine/navy applications where compact size and performance are important; and large pump applications.

RED Customers

RED sells its products to more than 1,000 customers including leading engineering and construction firms, OEMS, distributors and end users. RED's sales are diversified across several industries including the petroleum (38%), power (16%), chemical (13%), water treatment (8%) and other industries (25%). Our sales mix of original equipment products (61%) and aftermarket replacement parts (39%) diversifies our business and mitigates somewhat the impact on us of an economic downturn on our business.

Some of RED's top customers include: ARCO, Bechtel, BP Amoco, Dow Chemical, Duke Power, DuPont, Eastman Chemical, ExxonMobil, Fluor, PEMEX, Royal Dutch/Shell, Saudi Aramco and the United States Navy.

RED Competition

The industry is highly fragmented with more than 500 competitors. The top ten pump companies accounted for less than 40% of total 1999 estimated worldwide pump sales. We compete, however, primarily against a limited number of large companies operating on a global scale. Competition is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Price competition for original equipment tends to be more intense than for aftermarket services. Some of the largest pump industry competitors include ITT Industries, Ebara, KSB, Weir, Sulzer and Textron.

The pump industry has undergone a significant amount of consolidation in recent years. For example, in the last 24 months, ten acquisitions of pump companies with annual sales of at least $40.0 million each have been announced. This trend can be illustrated by the mergers announced in 1999 including Weir Group acquiring Warman, United Technologies acquiring Sundstrand and Eaton acquiring Aeroquip-Vickers. The three primary causes for this consolidation trend are: (1) the need to lower costs through reduction of excess capacity in the market, (2) the desire among the leading players to solidify their market positions in terms of both product offering and geographic coverage, and (3) customers' preference to align with global full service suppliers and simplify their supplier base. Despite the consolidation activity, the market remains highly fragmented.

FLOW CONTROL DIVISION ("FCD"; 14% OF REVENUE)

Through our Flow Control Division, we design, manufacture and distribute valves, actuators and related equipment. FCD's valve products are an integral part of a flow control system and are used to control the flow of liquids and gases. Substantially all of FCD's valves are specialized and engineered to perform specific functions within a flow control system. The sales price for an FCD product can range from $200 to $750,000. FCD's products are primarily used by companies that operate in the petroleum,



chemical, and power generation industries. We manufacture valves and actuators through 4 plants in the United States, 6 in Europe and 3 in other regions. We also manufacture a small portion of our valves through a foreign joint venture. Manual valve products and valve actuators are distributed through our sales force personnel and a network of distributors. Automatic control valves are marketed through sales engineers and service and repair centers or on a commission basis through sales representatives in our principal markets. We increased FCD's manufacturing capacity with the purchase of Honeywell Inc.'s European industrial control-valve product line in September 1999 and with the purchase of the Valtek Engineering division of Allen Power Engineering, Limited from Rolls Royce plc in July 1998.

FCD Summary Segment Financials(1)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| | (DOLLARS IN MILLIONS) | | |
| Sales | $317.2 | $313.2 | $295.3 |
| Operating income before all special items | 47.0 | 43.8 | 25.1 |
| Bookings | 302.4 | 318.9 | 293.1 |
| Backlog | 69.8 | 71.3 | 67.6 |
| Identifiable assets | 219.1 | 233.1 | 213.3 |

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(1) Summary segment financials are before corporate headquarters costs and certain intercompany eliminations. These amounts are not discussed in "Business -- Operations" and therefore the amounts for each of our three segments will not agree in total to the consolidated figures found elsewhere in this prospectus. See note 13 of Flowserve's Consolidated Financial Statements and note 7 of Flowserve's unaudited Interim Consolidated Financial Statements contained in this prospectus for additional segment information.

FCD Products

We manufacture approximately 50 different valves, actuators and automated valve accessories, of which 65% are highly engineered and designed for customized applications. Our valves are used in a wide variety of applications from general service to highly corrosive environments as well as in environments experiencing extreme temperatures and/or pressures and applications requiring zero leakage. In addition to traditional valves, we also produce valves under the Valtek(R) brand that incorporate "smart" valve technologies. "Smart" valve technology packages integrate high technology sensors, microprocessor controls and digital positioners into a high performance control valve, which permits real time system analysis, system warnings and remote services. We were the first company to introduce "smart" valve technologies in response to demands for increased plant automation, more efficient process control and digital communications. Through our technology alliance with Honeywell Inc., FCD's "smart" and control valve technologies are being incorporated in Honeywell's distributed control systems. We offer a growing line of digital products and are incorporating digital technologies into existing products to upgrade performance.

The following is a summary list of FCD's general product types and globally recognized brands:

| PRODUCT TYPES | BRAND NAMES |
|---|---|
| - Actuator Accessories | - Accord(R) |
| - Control Valve | - Anchor/Darling |
| - Digital Communications | - Atomac(TM) |
| - Manual Quarter-turn Valves | - Automax(R) |
| - Valve Automation Systems | - Battig |
| - Valve/Actuator Software | - Durco(R) |
| - Nuclear Valves | - Kammer(R) |
| - Quarter-Turn Actuators | - Sereg(TM) |
| | - Valtek(R) |



[PICTURE]

DURCO(R) 1/4-TURN VALVE UNDER AUTOMAX(TM) ACTUATOR SUPPORTED BY ACCORD(R) POSITIONER. Our product line of Durco(R) 1/4-Turn Valves consist of manually operated plug, ball and butterfly valves which are widely used in the petroleum refining, chemical processing, paper and pharmaceutical industries. Automax(R) actuators and accessories are available as separate components or as part of an integrated 1/4-turn valve automation package.

[PICTURE]

SMART VALVE PRODUCTS. We offer the Valtek(R) intelligent system for control valves -- in our opinion, the only true "smart valve" package available today that includes process sensors, a micro processor-based controller and a highly accurate digital positioner mounted on a high performance control valve.

FCD New Product Developments

Our investments in new product research and development are focused on maintaining our technological leadership position and differentiating our product offering. When necessary, we invest in the redesign of existing products in an effort to improve their performance and continually meet customer needs. Some examples of our latest product innovations include:

- LOGIX DIGITAL POSITIONER. This enhances performance, speed and accuracy of pneumatic control valves and provides for quick calibration and setup due to its revolutionary circuitry. This positioner is available in both standard digital and advanced "smart" versions. The Logix digital positioner keeps Flowserve on the leading edge of technology in the control valve industry.

- BUSWITCH. This enables control and monitoring of automated on/off quarter-turn valves through FOUNDATION fieldbus technology. The BUSwitch technology is the first of its kind in the marketplace for on/off applications. Customers will realize greater ability to perform predictive and preventative maintenance, thus saving on installation and operating costs. Due to this enhancement FCD expects to gain additional business for quarter-turn valve and actuation products due to the market potential of this product.

FCD Customers

FCD's customer mix is diversified within several industries including chemical (51%), petroleum (16%), power (12%) and other industries (21%). We benefit from a mix of original equipment sales (81%) and aftermarket parts (19%).

Some of FCD's top customers include: Air Liquide, Air Products, Celanese, Dow Chemical, DuPont, Eastman Chemical, Formosa Plastics, Merck and Royal Dutch/Shell.

FCD Competition

Like the industrial pump market, the industrial valve market is highly fragmented and has undergone a significant amount of consolidation in recent years. According to a study done by the Freedonia Group, the leading six public companies account for less than 25% of the market for standard industrial valves. Beyond these six public companies, there are hundreds of private companies with the largest three



accounting for a combined 4% of the market. Within the valves segment, we believe that the top ten domestic manufacturers generate less than 25% of domestic sales.

FLOW SOLUTIONS DIVISION ("FSD"; 29% OF REVENUE)

Through our Flow Solutions Division, we design, manufacture and distribute mechanical seals and sealing systems and provide parts, repair and services for flow control equipment used in process industries. Flow control products require mechanical seals to be replaced throughout the products' useful lives. The replacement of mechanical seals is an integral part of aftermarket services. The sales price for an FSD product can range from $3 to $140,000. Our mechanical seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, primarily in the petroleum, chemical processing, power generation, water treatment industries and general industrial end-markets. Through FSD's global network of more than 150 service and quick response centers in more than 30 countries we provide service, repair and diagnostic services for maintaining flow control system components.

FSD Summary Segment Financials(1)

| | YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|---|
| | 1997 | 1998 | 1999 | PRO FORMA(2) 1999 |
| | (DOLLARS IN MILLIONS) | | | |
| Sales | $430.1 | $428.5 | $438.5 | $599.5 |
| Operating income before all special items | 62.7 | 65.1 | 56.1 | 62.4 |
| Bookings | 439.5 | 430.5 | 436.0 | 597.0 |
| Backlog | 68.2 | 64.2 | 50.4 | 50.4 |
| Identifiable assets | 257.5 | 266.5 | 292.0 | 403.0 |

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(1) Summary segment financials are before corporate headquarters costs and certain intercompany eliminations. These amounts are not discussed in "Business -- Operations" and therefore the amounts for each of our three segments will not agree in total to the consolidated figures found elsewhere in this prospectus. See note 13 of Flowserve's Consolidated Financial Statements and note 7 of Flowserve's unaudited Interim Consolidated Financial Statements contained in this prospectus for additional segment information.

(2) Combines the historical results of Flowserve and Invatec giving effect to the Pro Forma adjustments anticipated to be realized from the acquisition of Invatec. See note (1) "Unaudited Pro Forma Consolidated Statement of Operations."

We manufacture mechanical seals through three plants in the United States, two in Europe, three in Latin America and three in Asia. We also manufacture our mechanical seals through foreign joint ventures. Our mechanical seal products are primarily marketed through our sales force directly to end users. A portion of our mechanical seal products is sold directly to OEMs for incorporation into pumps, compressors, mixers or other rotating equipment requiring mechanical seals. Distributors and sales agents are also used in the sale of mechanical seals.

FSD Products and Services

MECHANICAL SEALS. Mechanical seals accounted for approximately 51% of 1999 FSD sales. We design, manufacture and distribute approximately 180 different models of mechanical seals and sealing systems, of which approximately 65% are highly engineered and designed for customized applications. We believe our ability to turn around new seal product orders within 72 hours from the customer's request, through design, engineering, manufacturing, testing and delivery provides us with a competitive advantage. The mechanical seal is critical to the smooth operation of pumps, compressors and mixers for prevention of leakage and emissions of hazardous substances and the reduction of shaft wear. We also manufacture a gas lubricated mechanical seal used in high-speed compressors for gas transmission and oil and gas production markets. We continually update our mechanical seals and sealing systems for new technologies.



The following is a summary list of FSD's general product types and globally recognized brands:

| PRODUCT TYPES | BRAND NAMES |
|---|---|
| - Cartridge | BW Seals(R) |
| - Dry-running | Durametallic(R) |
| - Metal bellow | Five Star Seal(R) |

- Elastomeric
- Split
- Gas barrier
- Service and repair

GASPAC(R)
Pacific Wietz(TM)
Pac-Seal(R)

[PICTURE]

FSD SEAL GROUP. FSD manufactures and markets highly engineered mechanical shaft seals for containing corrosive, volatile, abrasive, precious or flammable fluids. Our mechanical seals are used on pumps, compressors, mixers, steam turbines and other rotating-motion equipment. Flowserve seals offer innovative designs, responsiveness, and development of new technologies that aim to produce lower maintenance and operating costs. Flowserve seals can be found in nearly every process fluid industry, including petroleum refining, oil and gas production and pipelines, chemical processing, power generation, pharmaceutical, mining and ore processing, and pulp and paper. Major manufacturing locations are in Michigan, The Netherlands and Germany. FSD also has a worldwide network of quick response centers, conveniently located for immediate delivery of factory parts and complete seal assemblies.

SERVICE. Service accounted for approximately 49% of 1999 FSD sales. We provide aftermarket services through our global network of 575 service personnel operating through more than 150 service and quick response centers in 30 countries, after giving effect to Flowserve's integration of Invatec. Our service personnel provide a comprehensive set of equipment maintenance services for flow control systems, including repair, advanced diagnostics, installation, commissioning, re-rate and retrofit programs and full machining capabilities. A large portion of our service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets. In 1998, we expanded our service network with the acquisition of two valve repair companies in Belgium and the Netherlands and a Canadian pump service repair facility. In October 1999, we acquired a valve repair company in Southern California. In January, 2000, we acquired Econ, another valve service business located in the Netherlands.

Invatec Acquisition

On January 13, 2000, Flowserve completed the acquisition of Invatec. Invatec provides repair, service and distribution of parts to many of the same end users that we serve, but with a focus on valve products. The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The purchase price was approximately $18.3 million in cash. Liabilities of $94.9 million were simultaneously paid through borrowing under Flowserve's revolving credit agreement. Prior to Flowserve's acquisition, Invatec had approximately 500 service technicians, operating through 64 domestic locations and 2 UK locations. We have identified 19 facilities that we are closing and consolidating with our existing locations. Invatec significantly enhances our service capabilities and helps us stay closer to end users on a day-to-day basis. This acquisition builds on our plan to continue strengthening our aftermarket service and repair business, which offers revenues that are recurring in nature with margins significantly higher than original equipment sales.

Invatec is a single-source provider of comprehensive maintenance, repair, replacement and value added distribution services for industrial valves, piping systems and other flow control system components. For valves, Invatec services a wide range of equipment including control, safety relief, manual and automated valves both off site or on-line as needed. Invatec also provides field machining services for



turning, milling, drilling and severing/beveling work. Large portable machining equipment and mobile machine shops are fully equipped for cleaning, machining, welding, lapping and testing of equipment. Invatec offers all these on-site

services for a faster, more cost-efficient solution than conventional repair methods. Invatec also provides on-call valve leak service and utilizes its leakseal technology for volatile organic chemical and hydrocarbon leaks. Safeseal technology for on-line valve restoration provides a permanent solution for leaking rising stem valves. Invatec also provides additional field services including routine and turnaround maintenance services, site evaluations, cost evaluations, proactive maintenance programs for pumps and valves, shutdown planning and mechanical repair.

Invatec Summary Financials

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| | (DOLLARS IN MILLIONS) | | |
| Sales | $ 58.6 | $154.6 | $161.0 |
| Operating income before all special items(1) | 2.0 | 6.6 | 6.7 |
| EBITDA(2) | 3.2 | 11.1 | 11.5 |
| Total assets | 105.4 | 183.7 | 132.3 |

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(1) Special items in 1997 consisted of $7.6 million in special non-cash compensation expenses, in 1998 consisted of $2.2 million in the write-off of capitalized costs and $2.0 million of merger transaction costs in 1999.

(2) EBITDA means net income before interest, taxes, depreciation, amortization, other income, net (excluding commission and royalty income) and other non-recurring items. Other non-recurring items in 1997 consisted of $7.6 million in special non-cash compensation expenses in 1998 consisted of $2.2 million in the write-off of capitalized costs and $39.1 million of goodwill impairment, $3.8 million loss on assets held for sale and $2.0 million of merger transaction costs in 1999. Such definition of EBITDA may differ from the definition of EBITDA used by other companies and should not be considered as an alternative to net income, cash flows or any other items calculated in accordance with generally accepted accounting principles or as an indicator of Invatec's operating performance.

FSD New Product Developments

Our investments in new product research and development are focused on developing products that last longer and work more efficiently. Approximately 30% of our original equipment mechanical seal sales for 1999 were sales of products developed within the past five years. The following are examples of our latest mechanical seal and seal system innovations:

- Innovative Standard Cartridge

- GX2000 Double Gas Seal

- Gaspac(R) HP High Pressure Compressor Seal

- Gas Steam Turbine Seal

- LS-300 Cartridge Seal

- SLC Flushless, Heavy Duty Slurry Seal

FSD Customers

Our mechanical seal products are sold to OEMs for incorporation into pumps, compressors, mixers or other rotating equipment requiring mechanical seals, and directly to end-users. FSD's mix of mechanical seal sales is approximately 23% for original equipment and 77% for aftermarket replacement and parts. FSD's mechanical seal sales in 1999 were diversified among several industries including petroleum (42%), chemical (36%), power generation (3%) and other industries (19%).

We have established alliances with over 200 customers including BP Amoco, Chevron, Dow Chemical, DuPont, Eastman Chemical, ExxonMobil and Royal Dutch/Shell. In approximately 70% of our alliances, we have been selected as the primary supplier and service provider. These alliances provide significant benefits to us, as well as to our customers by creating a more efficient supply chain through the



reduction of procurement costs and increased communication with our customers. Our alliances enable us to provide products and services to our customers in a timely and cost-effective manner. We plan to capture an increasing share of our current alliance partners' business as well as expand these types of arrangements to new customers.

FSD Competition

In the aftermarket segment, we often compete against the customers' in-house maintenance departments. An estimated 86% of the total costs of pump ownership are attributable to maintenance, replacement parts and ongoing service. The aftermarket service business is highly fragmented and there are no other large independent competitors offering comprehensive services for flow control products. Customers frequently use in-house resources or buy services from small and local operations. Delivery speed and the proximity of services and repair centers are particularly important in the aftermarket segment, with customers more likely to rely on top tier, rather than smaller, providers for more complex servicing needs.

REGULATORY DIVESTITURES

In connection with the IDP acquisition, we have entered into a consent decree with the U.S. Department of Justice to resolve its antitrust concerns related to the acquisition. The consent decree was filed with the United States District Court for the District of Columbia on July 28, 2000 and published in the Federal Register on September 13, 2000. See "Risk Factor -- Risks Relating to our Business -- Although we have entered into a consent decree with the U.S. Department of Justice addressing its antitrust concerns related to the Acquisition, we may not obtain a final court order approving the Acquisition".

Pursuant to this consent decree, we have committed to divest the following assets:

- certain designated models of highly engineered pumps in four product lines serving the oil refinery and power industry markets;

- Flowserve's Tulsa manufacturing facility; and

- on-site plant and equipment at two IDP service and repair centers located in the United States

In the divestures of product lines, we will be able to retain certain overlapping models in all of the product lines. In addition, we will be required to grant the purchaser of the divested product line(s) the exclusive right to sell such product line(s) for installation within the United States and a non-exclusive right to sell such product line(s) for installation outside the United States, except for special provisions permitting sales in the U.S. to two major alliance customers of equipment and parts on certain product lines for specified periods of time from the date of entry of the consent decree.

With respect to the divestiture of the Tulsa manufacturing facility, Flowserve must leave all production equipment and related assets used to manufacture the pump product lines to be divested.

We must make the above divestitures within 150 calendar days after the filing of the consent decree, subject to one 30-day extension by the Department of Justice, in its sole discretion. If we have not divested these assets within that time period, a trustee will be appointed by the federal district court, who shall have the sole right to divest the assets following such appointment.

The above divestitures would affect less than three percent of the combined 1999 revenues of Flowserve and IDP. In the opinion of management, the impact of these divestitures will not be material to our overall pro forma financial position or results of operations.

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SALES AND MARKETING

We sell our products through a direct sales force totaling over 700 sales and marketing personnel, distributors and commissioned sales agents in 70 countries. A significant percentage of our direct sales force has technical backgrounds, including degrees in engineering. We believe that our worldwide sales and distribution presence enables us to provide timely and responsive support and service to our customers, many of which operate internationally, and to capitalize on growth opportunities in both developed and emerging markets around the world.

INTERNET AND E-COMMERCE INITIATIVES

Our Internet site (www.flowserve.com) provides information to existing and potential customers, detailed information about our three divisions' products and services, as well as supporting internal data sharing and exchange. We are establishing several customer specific extranets through which we will share and communicate information related to individual projects or distribution activities, which will be implemented during 2000. The core of our e-commerce strategy is to: (1) work closely with our major customers in identifying opportunities to electronically integrate our work processes; (2) extend our traditional lines of marketing and distribution using Web-based technologies; and (3) reduce product lead time and supplier costs by sharing and leveraging planning, scheduling and purchasing information on a global basis.

PROPERTIES

Our corporate headquarters are located in Irving, Texas encompassing approximately 34,000 square feet of leased space. Information on the principal manufacturing facilities, by segment, after giving effect to the Transactions and the Invatec acquisition and eight announced facility closings, is as follows:

| | RED | | FSD | | FCD | |
|---|---|---|---|---|---|---|
| | NUMBER OF FACILITIES | SIZE(FT(2)) | NUMBER OF FACILITIES | SIZE(FT(2)) | NUMBER OF FACILITIES | SIZE(FT(2)) |
| Domestic | 8 | 1,129,000 | 3 | 172,500 | 4 | 528,400 |
| International | 15 | 1,991,000 | 8 | 286,400 | 9 | 398,850 |

Most of our principal manufacturing facilities are owned and our leased facilities are subject to long-term lease agreements.

We estimate that we utilize approximately 55%-65% of our manufacturing capacity. Pursuant to a restructuring program announced in December 1999, we expect to close one of the FSD manufacturing plants in the United States and a number of smaller U.S. and foreign facilities. In addition, in connection with our integration of IDP's operations, we intend to shut down a number of additional Flowserve and IDP plants and service and repair centers in order to realize the opportunities for cost savings and synergies presented by the IDP acquisition. Management believes that after giving affect to the planned rationalization of our facilities we will have sufficient capacity to meet increased customer demand as our market recovers.

We maintain a substantial network of domestic and foreign service and repair centers and sales offices, most of which are leased.

In connection with the IDP acquisition, we have entered into a consent decree with the U.S. Department of Justice to resolve its antitrust concerns related to the acquisition. This consent decree requires us to divest certain product lines, our manufacturing facility in Tulsa, Oklahoma, and on-site plant and equipment at two IDP service and repair centers located in the United States that would affect less than three percent of the combined 1999 revenues of Flowserve and IDP. See "-- Regulatory Divestitures."

RESEARCH AND DEVELOPMENT

We conduct research and development at various facilities. In 1999, 1998 and 1997, we spent approximately $28.6 million, $30.1 million, and $30.5 million, respectively, on company-sponsored research and development, primarily for new product development and extensions of existing products.

Our research and development group consists of engineers involved in new product development as well as the support and improvement of existing products. Additionally, we sponsor consortium programs for research with various universities and conduct limited development work jointly with certain of our vendors, licensees and customers. We believe current expenditures are adequate to sustain ongoing research and development activities.

RAW MATERIALS

The principal raw materials we use in manufacturing our products are readily available. The main raw materials we use include bar stock and structural steel, castings, fasteners, gaskets, motors, silicon and carbon faces and teflon(R). While substantially all raw materials are purchased from outside sources, we have been able to obtain an adequate supply of raw materials and no shortage of such materials is currently anticipated. We intend to expand our use of worldwide sourcing to capitalize on low cost sources of purchased goods. Certain corrosion-resistant castings for our pumps and quarter-turn valves are manufactured at our Dayton, Ohio foundries, and other metal castings are manufactured at three other foundries or purchased from outside sources. We also produce most of our highly-engineered corrosion resistant plastic parts for certain pump and valve product lines. This includes rotomolding, as well as injection and compression molding, of a variety of fluorocarbon and other plastic materials. Suppliers of raw materials for nuclear markets must be qualified by the American Society of Mechanical Engineers and, accordingly, are limited in number. However, to date we have experienced no significant difficulty in obtaining such materials.

EMPLOYEES AND LABOR RELATIONS

We employ approximately 12,000 persons of whom approximately 47% work in the United States. Our hourly employees at five principal U.S. pump manufacturing plants, plus those at our valve manufacturing plant in Williamsport, Pennsylvania and at our foundries in Dayton, Ohio are represented by unions. Our operations in the following countries are unionized: Argentina, Austria, Belgium, Brazil, Canada, France, Germany, Italy, Mexico, The Netherlands, Spain and United Kingdom. We have a highly educated technical workforce, many of whom have engineering degrees. We believe relations with our employees throughout our operations are satisfactory, including with those employees represented by unions.

TRADEMARKS AND PATENTS

We own a number of trademarks and patents relating to the name and design of our products. We consider our trademarks Flowserve(R), Byron Jackson(R), Durco(R), Atomac(TM), BW Seals(R), Durametallic(R), United Centrifugal(R), Stork(R), Worthington(R), Jeumont Schneider(R), Pleuger(R), Pacific Wietz(TM) and Scienco(R) to be important to our business. The patents underlying much of the technology for our products have been in the public domain for many years. Surviving patents are not considered, either individually or in the aggregate, to be material to our business. However, our pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of our products and their use, is considered particularly important and valuable. Accordingly, we protect such proprietary information. In general, we are the owner of the rights to the products which we manufacture and sell, and we are not dependent in any material way upon any license or franchise to operate.





ENVIRONMENTAL MATTERS

We are subject to environmental laws and regulations in all jurisdictions in which we have operating facilities. We periodically make capital expenditures for pollution abatement and control to meet environmental requirements. At

present, we have no plans for any material capital expenditures for environmental control facilities. However, we have experienced and continue to experience operating costs relating to environmental matters, although certain costs have been offset by our successful waste minimization programs.

We are also currently investigating and remediating several contaminated properties, including several properties that we recently obtained through the Acquisition that Ingersoll-Rand is responsible for remediating pursuant to the IDP purchase agreement. While we believe that Ingersoll-Rand will honor its contractual remediation obligations in this regard, we cannot assure you of this. In the event that Ingersoll-Rand were to successfully dispute its remediation obligations or our operations were to cause additional contamination, we could incur clean up costs or other liabilities in connection with these properties.

Based on information currently available, we believe that future environmental compliance expenditures will not have a material adverse effect on our financial position and have established allowances which we believe to be adequate to cover potential environmental liabilities. See "Risk Factors -- Environmental compliance costs and liabilities could adversely affect our financial condition."

LEGAL PROCEEDINGS

We are involved in ordinary routine litigation incidental to our business, none of which we believe to be material to our financial condition.

In addition, we are involved as a "potentially responsible party" at five former public waste disposal sites that may be subject to remediation under pending government procedures. Under certain environmental laws, we could be held jointly and severally liable for all investigation and remediation costs at these sites, as well as related natural resources damages, without regard to fault. The sites are in various stages of evaluation by federal and state environmental authorities. The projected cost of remediating these sites, as well as our alleged "fair share" allocation, is uncertain and speculative until all studies have been completed and parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified, and the identification and location of additional parties is continuing under applicable federal or state law. Based on our preliminary information about the waste disposal practices at these sites and the environmental regulatory process in general, we believe that it is likely that ultimate remediation liability costs for each site will be apportioned among all parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites.

We also have been named as one of a number of defendants in numerous lawsuits involving approximately 70,000 claims (of which approximately 35,000 have been settled or dismissed) that seek to recover damages for alleged personal injury claimed to result from exposure to asbestos-containing products formerly manufactured and distributed by us. All such products were used within self-contained process equipment, and management does not believe that there was any emission of ambient asbestos fiber during the use of this equipment. We have successfully resolved virtually all closed cases without payment or with a nominal payment. We believe that the open cases are without merit, that we have adequate insurance to pay most of the costs and liabilities in connection therewith and that the ongoing costs and liabilities associated with current and future asbestos-related litigation will not adversely affect us. Nevertheless, unexpected adverse future events, such as a significant increase in the number of new cases or changes in our current insurance arrangements, could result in liabilities that could have a material adverse effect on our business, financial condition or results of operations.





INDUSTRY

The flow control industry generates $50-55 billion per year in worldwide sales and includes pumps, valves, mechanical seals and aftermarket services. According to industry sources, engineered pumps account for approximately $23 billion, valves approximately $21 billion, seals approximately $2-3 billion and aftermarket services approximately $8-10 billion of annual world-wide sales. The pump, valves and aftermarket service segments are projected to grow annually at

3-4%, 3-4% and 7-8%, respectively, over the next several years. The engineered pump segment in which we operate excludes non-industrial applications, such as residential, which represents a market of approximately equivalent size to the industrial segment.

Quality and reliability of equipment are critical as the failure of a pump, valve or seal may halt the flow process. Of the three product types, at the time of the original equipment purchase, pumps are generally the most expensive followed by valves then seals. During the replacement cycle, seals may have to be replaced every few hours in highly corrosive applications, while pumps can run for months or years before needing replacement. Products and services in the flow control industry are sold to engineering and construction firms, OEMs, distributors and end users throughout the world.

Despite the consolidation trend over the past ten years, the industry remains highly fragmented. Competition for original equipment sales among the industry leaders is primarily against a select group of large companies operating on a global scale. Competition for original equipment sales is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history and reputation for quality. In the pump segment, there are more than 500 companies, with the top ten pump companies accounting for less than 40% of total 1999 estimated worldwide annual pump sales. In the valves segment, we believe that the top ten domestic manufacturers generate less than 25% of domestic sales. The aftermarket service sector is extremely fragmented as many end users either use in-house resources or buy service from local operators, which are often very small.

COMPETITION

The industry is highly fragmented, although for original equipment sales the industry leaders primarily compete against a selected number of large companies operating on a global scale. In the pump segment, there are more than 500 companies, with the top ten pump companies accounting for less than 40% of total 1999 estimated worldwide annual pump sales. In the valves segment, we believe that the top ten domestic manufacturers generate less than 25% of domestic sales. The aftermarket service sector is extremely fragmented as customers either use in-house resources or buy service from local operators, which are often times very small. Competition for original equipment sales is generally based on price, expertise, delivery times, breadth of product offerings, contractual terms, previous installation history and reputation for quality.

END MARKET SEGMENTS

The following end market discussions address the primary segments we serve.

HYDROCARBON PROCESSING (PETROLEUM) INDUSTRY

Capital spending in the hydrocarbon processing (petroleum) industry fell by approximately 20% in consecutive years in 1998 and 1999 as a result of historically low oil prices. The depressed oil prices caused many planned projects to become uneconomical. With the strong recent recovery in oil prices to a year-to-date high of over $35.00 per barrel in 2000, from a low of $10.73 in December of 1998, industry analysts project HPI expenditures in the petroleum and chemical sectors to begin to sustain growth momentum over the next several years. Additionally, the recent consolidation among some of the oil industry's largest competitors also impacted capital spending levels as those companies sought to rationalize the combined entities' assets. Growth in capital spending is expected to be driven by new projects, reinstated projects and deferred maintenance work.





CHEMICAL

The chemical industry appears to be in the early stages of recovery driven by improved markets in Europe, Latin America and Asia. Industry analysts are forecasting higher sales, volumes and capital investments for chemical companies in 2000 and into 2001. Chemical producers' margins are expected to increase in 2000 and 2001 as price increases outpace raw material cost increases. This trend appeared to be somewhat offset by higher feed stock prices in 2000, but this imbalance is expected to reverse in 2001 as prices for most chemical products have been rising in response to the continued strength of the U.S. economy and

the economic recovery in Asia.

POWER

The U.S. power generation market is expected to require increasing levels of capital spending as the country's installed plants are becoming outdated and obsolete, and therefore need to be replaced and repowered. In addition, the deregulation of the power industry could lead to additional and more efficient capacity as competition between suppliers heightens and producers focus on lowering prices and costs while enhancing quality of service. Both these factors have led to an increase in demand for flow control products and services. China is the largest purchaser of pumps for new systems and represents 38% of the global pump market; however, China's replacement market share is only 13%. In the United States the opposite is true, as the United States holds a 9% share for new pumps with a 32% market share for replacement pumps.

WATER TREATMENT

Demand for new pumps in the water treatment market is largely attributable to the significant need for potable water and water treatment facilities around the world, particularly in lesser-developed countries. It is estimated that nearly half a billion people around the world face a shortage of potable water, and that number is expected to grow. The anticipated economic improvement in Asia, which requires a significant amount of infrastructure, is also a large driving force behind new pump sales growth. The need for water and water treatment is not limited to developing countries. A report published in August 1999 estimated that the United Kingdom must spend almost $60.0 billion over the next ten years building wastewater treatment facilities to comply with new European water quality standards. Industry analysts estimate that new and replacement pump sales in the water treatment industry will grow at a compounded annual growth rate of 9% and 5%, respectively, over the next four years.





## MANAGEMENT

### DIRECTORS AND EXECUTIVE OFFICERS

The table below sets forth the names and ages of each of Directors and officers of Flowserve, as well as the positions and offices held by such persons. A summary of the background and experience of each of these individuals is set forth after the table. The Board of Directors consists of 9 directors who are divided into three classes, with one full class being elected at each annual meeting of shareholders.

### MANAGEMENT AND BOARD OF DIRECTORS

| NAME | AGE | POSITION |
|---|---|---|
| C. Scott Greer | 49 | Chairman, President and Chief Executive Officer and Director |
| Renee J. Hornbaker | 48 | Vice President and Chief Financial Officer |
| Howard D. Wynn | 53 | Vice President and President of Rotating Equipment Division |
| George A. Shedlarski | 56 | Vice President and President of Flow Solutions Division and President of Flow Control Division |
| Rick L. Johnson | 47 | Vice President and Controller |
| Kenneth P. Bell | 52 | Vice President, Manufacturing Operations |
| Mark D. Dailey | 41 | Vice President, Supply Chain Integration |
| Cheryl D. McNeal | 50 | Vice President, Human Resources |
| Rory E. MacDowell | 50 | Vice President and Chief Information Officer |
| Ronald F. Shuff | 48 | Vice President, Secretary and General Counsel |
| M. Kathleen McVay | 45 | Vice President and Treasurer |
| Diane C. Harris | 57 | Director |
| James O. Rollans | 58 | Director |
| Hugh K. Coble | 65 | Director |
| George T. Haymaker, Jr. | 62 | Director |
| William C. Rusnack | 55 | Director |

| | | |
|---|---|---|
| Michael F. Johnston | 53 | Director |
| Charles M. Rampacek | 57 | Director |
| Kevin E. Sheehan | 55 | Director |

C. SCOTT GREER has been our President since July 1999, Chief Executive Officer since January 2000 and Chairman of the Board of Directors since April 2000. He has also been a director since 1999. Mr. Greer was Chief Operating Officer from July 1999 until succeeding Bernard G. Rethore as Chief Executive Officer in January 2000. Mr. Greer had been President of UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components, from 1997 to 1999. He was president and a director of Echlin, Inc., an automotive parts supplier, from 1990 to 1997, and its Chief Operating Officer from 1994 to 1997.

RENEE J. HORNBAKER has been our Vice President and Chief Financial Officer since December 1997. She was Vice President, Business Development and Chief Information Officer in 1997. She served as Vice President, Finance and Chief Financial Officer of BW/IP, Inc. in 1997 and Vice President, Business Development of BW/IP from 1996 to 1997. She also served as Director-Business Analysis and Planning of Phelps Dodge Industries, the diversified international manufacturing business of Phelps Dodge Corporation in 1996 and Director-Financial Analysis and Control from 1991 to 1996.



HOWARD D. WYNN has been our President of Rotating Equipment Division since 1997. He was Vice President of BW/IP, Inc. and President, Pump Division of BW/IP, Inc. from 1996 to 1997 and Vice President, Pump Division of BW/IP, Inc. from 1993 to 1996.

GEORGE A. SHEDLARSKI has been our President of Flow Solutions Division since January 1999 and President of Flow Control Division since August 1999. He was President of Fluid Sealing Division from 1997 to 1999, President of Service Repair Division in 1997, President of Rotating Equipment Group in 1997 and Group Vice President, Industrial Products Group from 1994 to 1997 .

RICK L. JOHNSON has been our Vice President since January 1998 and Controller since November 1998. He served as Vice President and Controller of the Industrial Products Division from 1997 to January 1998, Industrial Products Group Vice President and Controller from 1995 to 1997 and President, Durco Valtek (Singapore) from 1993 to 1995.

KENNETH P. BELL has been our Vice President, Manufacturing Operations since January 2000. He was General Manager and held other executive positions from 1985 to 1999 at UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components.

MARK D. DAILEY has been our Vice President, Supply Chain Integration since September 1999. He was Vice President, Supply Chain and other Supply Chain management positions, from 1992 to 1999 for the North American Power Tools Division of The Black and Decker Company, a manufacturer of power tools, fastening and assembly systems and security hardware and plumbing products.

CHERYL D. MCNEAL has been our Vice President, Human Resources since 1996. She was Assistant Vice President, Human Resources and held other Human Resource management positions at NCR from 1978 to 1996.

RORY E. MACDOWELL has been our Vice President and Chief Information Officer since 1998. He served as Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to 1997.

RONALD F. SHUFF has been our Vice President since 1990 and Secretary and General Counsel since 1989.

M. KATHLEEN MCVAY has been our Vice President and Treasurer since May 2000. She had served as Chief of Staff to the President and as Head of Planning and Administration, Global Corporate & Investment Bank, and held other management positions at Bank of America Corporation from 1984 to 1999.

DIANE C. HARRIS has been a director since 1993. She is President of Hypotenuse Enterprises, Inc., a merger and acquisition service and corporate development outsourcing company. She was Vice President, Corporate Development, of Bausch & Lomb, an optics and health care products company, from 1981 to 1996,

when she left to form Hypotenuse Enterprises, Inc.

JAMES O. ROLLANS has been a director since 1997. He is President and Chief Executive Officer of Fluor Signature Services, a subsidiary of Fluor Corporation, a major engineering and construction firm. He was Senior Vice President of Fluor from 1992 to 1999. He was also its Chief Financial Officer from 1998 to 1999 and 1992 to 1994, Chief Administrative Officer from 1994 to 1998 and Vice President, Corporate Communications from 1982 to 1992. Mr. Rollans is also a director of Fluor Corporation and of Inovision, Inc., a pharmaceutical products company.

HUGH K. COBLE has been a director since 1994. He is Vice Chairman Emeritus of Fluor Corporation. Mr. Coble was a director of Fluor Corporation from 1984 and Vice Chairman from 1994 until his retirement in 1997. He joined Fluor Corporation in 1966 and most recently was Group President of Fluor Daniel, Inc., a subsidiary of Fluor Corporation, from 1986 to 1994. He is also a director of Beckman Instruments, Inc., a company that sells medical instruments, and a director of ICO Global Communications, a telecommunications business.





GEORGE T. HAYMAKER, JR. has been a director since 1997. He is Chairman of Kaiser Aluminum Corporation, a company that operates in all principal aspects of the aluminum industry, since 1994. Mr. Haymaker was Chief Executive Officer of Kaiser Aluminum from 1994 to 1999. Prior to joining Kaiser Aluminum in 1993 as President and Chief Operating Officer, Mr. Haymaker worked with a private partner in the acquisition and redirection of several metal fabricating companies. He was Executive Vice President of Alumax, Inc. from 1984 to 1986.

WILLIAM C. RUSNACK has been a director since 1997. He is President, Chief Executive Officer and a director of Clark U.S.A., Inc., a company which refines crude oil to manufacture petroleum products, since 1998. Before joining Clark U.S.A., Inc., Mr. Rusnack was Senior Vice President of ARCO, an integrated petroleum company, from 1990 to 1998, and President of ARCO Products Company from 1993 to 1998. He is also a director of Clark Refining & Marketing, Inc., which is affiliated with Clark U.S.A., Inc.

MICHAEL F. JOHNSTON has been a director since 1997. He is President and Chief Operating Officer of Visteon Corporation, which was spun off from Ford Motor Company in late June 2000. Mr. Johnston previously was President at Johnson Controls, Inc., Americas Automotive Group from 1997 to 1999, Vice President and General Manager of ASG Interior Systems Business during 1997, Vice President and General Manager of the Johnson Controls Battery Group from 1993 to 1997, Vice President and General Manager of SLI Battery Division from 1991 to 1993.

CHARLES M. RAMPACEK has been a director since 1998. He is President and Chief Executive Officer of Probex Corporation, an energy technology company. Before joining Probex, Mr. Rampacek served as President and Chief Executive Officer of Lyondall-Citgo Refining, a manufacturer of petroleum products. Mr. Rampacek also served as President of Tenneco Gas Transportation Company from 1992 to 1996, Executive Vice President of Tenneco Gas operations from 1989 to 1992 and Senior Vice President of Refining of Tenneco Oil Company from 1982 to 1988.

KEVIN E. SHEEHAN has been a director since 1990. He is a general partner of CID Equity Partners, a venture capital firm that concentrates on early-stage and high-growth entrepreneurial companies. Before joining CID Equity Partners, he was a Vice President of Cummins Engine Company, a manufacturer of diesel engines and related components, from 1980 to 1993. He is also a director of the Auburn Foundry Group.





## DESCRIPTION OF THE ACQUISITION

### THE ACQUISITION

On February 9, 2000, Flowserve and Flowserve RED Corporation, a subsidiary of Flowserve, entered into a Purchase Agreement with Ingersoll-Rand Company and its subsidiary IDP Acquisition, LLC, which was amended on July 14, 2000 (the

"Purchase Agreement"), to purchase all of the partnership interests in Ingersoll-Dresser Pump Company at a price of $775.0 million. Flowserve and Flowserve RED closed the purchase of the partnership interests on August 8, 2000.

THE PHILLIPSBURG FACILITY

At the closing of the IDP acquisition, Ingersoll-Rand agreed to lease, rent free, to IDP the Phillipsburg facility for three years. There is ongoing remediation of contamination at the Phillipsburg property that is being conducted by Ingersoll-Rand. Under the Purchase Agreement, Ingersoll-Rand has agreed to indemnify Flowserve and Flowserve RED for all environmental liabilities at Phillipsburg except for new liabilities affirmatively caused by IDP as the new tenant.

EMPLOYEE BENEFIT MATTERS

Ingersoll-Rand has assumed the phantom stock plan applicable to IDP employees and is responsible for satisfying all obligations and liabilities with respect to that plan.

Ingersoll-Rand has assumed each of IDP's qualified defined benefit pension plans and all assets and liabilities accrued through the closing date of the IDP acquisition. In addition, Ingersoll Rand has retained liability for certain enhanced pension benefits payable to transferred employees under such defined benefit pension plans that may be triggered by plant shutdowns occurring until the first anniversary of the closing date of the acquisition, and has agreed to grant one year's service credit for purposes of determining accrued benefits under such defined benefit pension plans to transferred employees at the Liberty Corners, Huntington Park and Phillipsburg facilities.

Flowserve has agreed to establish new pension plans for certain transferred employees and, more generally, has agreed to maintain, for not less than a year following the closing date of the IDP acquisition, (1) salaries for transferred employees at levels no less favorable than immediately prior to the closing date and (2) employee benefit plans (other than certain bonus and incentive arrangements) for non-union transferred employees that, in the aggregate, are competitive with salaries and employee benefit plans maintained by Flowserve and those generally provided in IDP's industry in the relevant jurisdictions.

OTHER PROVISIONS

The Purchase Agreement also provides that Ingersoll-Rand will provide certain transition services at no charge to the purchasers from the closing date of the IDP acquisition through December 31, 2000.

- Immediately before the consummation of the IDP acquisition, Ingersoll-Rand caused IDP to distribute all receivables (except for the $3 million loan Ingersoll-Rand owed to the IDP Austrian subsidiary) held by subsidiaries of IDP which were owed by Ingersoll-Rand in the form of capital reductions of Ingersoll-Rand's capital account in IDP. To the extent that the sum of cash retained by the non-U.S. Subsidiaries of IDP and the principal amount of the loan Ingersoll-Rand owes to the IDP Austrian subsidiary exceeds or falls below $25 million as of the closing date, the amount of any such excess or shortfall will be paid by Flowserve or Ingersoll-Rand to the other party. In any event, Ingersoll-Rand will repay the loan it owes to the IDP Austrian subsidiary on the closing date.



REGULATORY APPROVALS

UNITED STATES

We have entered into a consent decree with the U.S. Department of Justice to resolve its antitrust concerns relating to the IDP acquisition. This consent decree requires us to divest certain product lines, Flowserve's Tulsa, Oklahoma manufacturing facility, and on-site plant and equipment at two IDP service and repair centers located in the United States. The provisions of the consent decree are described in more detail in "Business -- Regulatory Divestiture." See "Risk Factors -- Risk Factors Relating To Our Business -- Although we have entered into a consent decree with the U.S. Department of Justice resolving its

antitrust concerns related to the IDP acquisition, we may not obtain a final court order approving the acquisition." Under the purchase agreement, Flowserve has agreed to take all steps necessary to obtain approval from the Department of Justice with respect to the transaction.

GERMANY

We filed our notification of the IDP acquisition with the German Federal Cartel Office in April 2000. The German Federal Cartel Office issued its approval of the portion of the IDP acquisition subject to its jurisdiction on July 17, 2000.



## DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of certain indebtedness of our company. To the extent such summary contains descriptions of the Senior Credit Facilities and other loan documents, such descriptions do not purport to be complete and are qualified in their entirety by reference to such documents which are filed as Exhibits to the registration statement of which this prospectus is a part.

### SENIOR CREDIT FACILITIES

General. In connection with the Transactions, we entered into the Senior Credit Facilities with a syndicate of certain financial institutions, as lenders, Credit Suisse First Boston, New York branch, as Syndication Agent, Bank of America, N.A., as Administrative Agent, Collateral Agent and Swingline Lender and ABN AMRO Bank N.V., Bank One, N.A. and Salomon Smith Barney Inc. as Co-Documentation Agents. The description below of the Credit Agreement is a summary of the principal terms of the Senior Credit Facilities and related loan documents.

The Senior Credit Facilities provide for up to $1,050.0 million of aggregate borrowing capacity for our company, consisting of:

- a secured $275.0 million funded term A loan (the "Term Loan A");

- a secured $475.0 million funded term B loan (the "Term Loan B"); and

- a secured $300.0 million revolving line of credit (the "Revolving Credit Facility"). Approximately $30.0 million in letters of credit have been issued under the Revolving Credit Facility. As a result, under our Revolving Credit Facility we will have unused borrowing capacity, net of issued letters of credit, of approximately $270.0 million. The Revolving Credit Facility permits up to $25.0 million of swingline loans.

Use of the Senior Credit Facilities. We used the proceeds from the Term Loan A and Term Loan B and borrowings under the Revolving Credit Facility, together with the proceeds from the offering of the $290 million 12 1/4% Senior Subordinated Notes due 2010 and the proceeds from the E100 million 12 1/4% Senior Subordinated Notes due 2010, (i) to fund the Acquisition, (ii) to refinance our existing indebtedness and (iii) to pay related fees and expenses.

Guarantees; Security. Our obligations under the Senior Credit Facilities are unconditionally guaranteed, jointly and severally, by substantially all of our existing and subsequently acquired or organized domestic subsidiaries. Our obligations and those of such guarantors under the Senior Credit Facilities are secured by substantially all of the assets of our company and each of the guarantors. No foreign subsidiary is required to guarantee the senior credit facilities and less than two-thirds of the capital stock of certain foreign subsidiaries is required to be pledged to secure the senior credit facilities.

Amortization; Interest; Fees; Maturity. The Term Loan A Term Loan B will amortize each year on a quarterly basis in the following approximate aggregate principal amounts as set forth below:

| YEAR | TERM LOAN A | TERM LOAN B |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |

| | | |
|---|---|---|
| 2001 | $ 15.0 | $ 3.0 |
| 2002 | 41.0 | 4.0 |
| 2003 | 56.0 | 4.0 |
| 2004 | 60.0 | 4.0 |
| 2005 | 64.0 | 4.0 |
| 2006 | 39.0 | 67.6 |
| 2007 | -- | 258.7 |
| 2008 | -- | 129.7 |
| | $275.0 | $475.0 |





The Revolving Credit Facility is available until June 30, 2006 unless terminated earlier under certain circumstances.

Our borrowings under the Term Loan A, Term Loan B and Revolving Credit Facility bear interest at a rate equal to, at our option, either (i) the base rate (which is based on the prime rate most recently announced by the Administrative Agent or the Federal Funds rate plus one-half of 1%) or (ii) the applicable London interbank offered rate, in each case plus applicable margin. In addition, the Senior Credit Facilities are subject to a commitment fee of 0.50% per annum of the undrawn portion of the Revolving Credit Facility and letter of credit fees with respect to each letter of credit outstanding under the Senior Credit Facilities equal to the applicable margin over Adjusted LIBOR (as defined in the Senior Credit Facilities) in effect for loans under the Revolving Credit Facility.

Prepayments. The loans under the Senior Credit Facilities are required to be prepaid with certain assets and capital stock sales and dispositions, certain incurrences of indebtedness, certain offerings of common equity securities and by certain percentages of our annual Excess Cash Flow (as defined in the Credit Agreement).

Voluntary prepayments may be made in whole or in part without premium or penalty.

Covenants and Events of Default. The Senior Credit Facilities contain, among other things, covenants restricting our ability and our subsidiaries' ability to dispose of assets, merge, pay dividends, repurchase or redeem capital stock and indebtedness (including the notes), incur indebtedness and guarantees, create liens, enter into agreements with negative pledge clauses, make certain investments or acquisitions, enter into sale and leaseback transactions, enter into transactions with affiliates, change our business or make fundamental changes, and otherwise restrict corporate actions. The Senior Credit Facilities also contain a number of financial maintenance covenants.

The Senior Credit Facilities also include events of default usual for these types of credit facilities and transactions, including but not limited to nonpayment of principal or interest, violation of covenants, incorrectness of representations and warranties, cross defaults and cross acceleration, bankruptcy, material judgments, ERISA, actual or asserted invalidity of the guarantees or the security documents and certain changes of control of our company. The occurrence of any event of default could result in the acceleration of our company's and the guarantors' obligations under the Senior Credit Facilities, which could materially and adversely affect holders of the notes.





## DESCRIPTION OF THE NOTES

Flowserve Corporation will issue the Dollar Notes under an Indenture dated August 8, 2000 (the "Dollar Notes Indenture") between itself, the guarantors identified herein and The Bank of New York, as trustee (the "Dollar Notes Trustee"). Flowserve Finance B.V. will issue the Euro Notes under an Indenture dated August 8, 2000 (the "Euro Notes Indenture") between itself, the guarantors identified herein and The Bank of New York, as trustee (the "Euro Notes Trustee"). The Dollar Notes and the Euro Notes are collectively referred to as the "Notes", the Dollar Notes Indenture and the Euro Notes Indenture are collectively referred to as the "Indentures" and the Dollar Notes Trustee and

the Euro Notes Trustee are collectively referred to as the "Trustees". The terms of each series of Notes include those stated in the applicable Indenture and those made part of that Indenture by reference to the Trust Indenture Act of 1939 (the "Trust Indenture Act").

Certain terms used in this description are defined under the subheading "-- Certain Definitions". In this description, the words "Company", "we", "us" and "our" refer only to Flowserve Corporation and not to any of its subsidiaries and "FFBV" refers only to Flowserve Finance B.V.

The following description is only a summary of the material provisions of the Indentures. We urge you to read the Indentures because they, not this description, define your rights as holders of these Notes. You may request copies of these agreements at our address set forth under the heading "Prospectus Summary -- Additional Information".

BRIEF DESCRIPTION OF THE NOTES

DOLLAR NOTES

The Dollar Notes:

- are unsecured senior subordinated obligations of the Company;
- are subordinated in right of payment to all existing and future Senior Indebtedness of the Company;
- are senior in right of payment to any future Subordinated Obligations of the Company;
- are guaranteed on a senior subordinated basis by each Dollar Notes Guarantor, including FFBV; and
- are subject to registration with the SEC pursuant to the Dollar Notes Registration Rights Agreement.

EURO NOTES

The Euro Notes:

- are unsecured senior subordinated obligations of FFBV;
- are subordinated in right of payment to all existing and future Senior Indebtedness of FFBV;
- are senior in right of payment to any future Subordinated Obligations of FFBV;
- are guaranteed on a senior subordinated basis by the Company and each other Euro Notes Guarantor; and
- are subject to registration with the SEC pursuant to the Euro Notes Registration Rights Agreement.



PRINCIPAL, MATURITY AND INTEREST

DOLLAR NOTES

The Company issued the old Dollar Notes initially in a principal amount of $290.0 million. The Company issued the Dollar Notes in denominations of $1,000 and any integral multiple of $1,000. The Dollar Notes will mature on August 15, 2010. Subject to our compliance with the covenant described under the subheading "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness", we are permitted to issue more Dollar Notes under the Dollar Notes Indenture in an unlimited principal amount (the "Additional Dollar Notes"). The Dollar Notes and the Additional Dollar Notes, if any, will be treated as a single class for all purposes of the Dollar Notes Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the Dollar Notes Indenture and this "Description of the Notes", references to the Dollar Notes include any Additional Dollar Notes actually issued.

Interest on the Dollar Notes will accrue at the rate of 12 1/4% per annum and will be payable semiannually in arrears on February 15 and August 15, commencing on February 15, 2001. We will make each interest payment to the holders of record of the Dollar Notes on the immediately preceding February 1 and August 1. We will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

Interest on the Dollar Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

EURO NOTES

FFBV may issue Euro Notes initially in the principal amount of E100.0 million. FFBV will issue the Euro Notes in denominations of E1,000 and any integral multiple of E1,000. The Euro Notes will mature on August 15, 2010. Subject to the Company's compliance with the covenant described under the subheading "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness", FFBV is permitted to issue more Euro Notes under the Euro Notes Indenture in an unlimited principal amount (the "Additional Euro Notes"). The Euro Notes, including the Additional Euro Notes, if any, will be treated as a single class and series for all purposes of the Euro Notes Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the Euro Notes Indenture and this "Description of the Notes", references to the Euro Notes include any Additional Euro Notes actually issued.

Interest on the Euro Notes will accrue at the rate of 12 1/4% per annum and will be payable semiannually in arrears on February 15 and August 15, commencing on February 15, 2001. FFBV will make each interest payment to the holders of record of the Euro Notes on the immediately preceding February 1 and August 1. FFBV will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

Interest on the Euro Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

OPTIONAL REDEMPTION

DOLLAR NOTES

Except as set forth below, we will not be entitled to redeem the Dollar Notes at our option prior to August 15, 2005.

On and after August 15, 2005, we will be entitled at our option to redeem all or a portion of the Dollar Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date (subject to the right of



Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| PERIOD | REDEMPTION PRICE |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000 |

In addition, before August 15, 2003, we may at our option on one or more occasions redeem Dollar Notes (which includes Additional Dollar Notes, if any)

in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Dollar Notes (which includes Additional Dollar Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Public Equity Offerings; provided that

(1) at least 65% of such aggregate principal amount of Dollar Notes (which includes Additional Dollar Notes, if any) remains outstanding immediately after the occurrence of each such redemption (other than Dollar Notes held, directly or indirectly, by the Company or its Affiliates); and

(2) each such redemption occurs within 60 days after the date of the related Public Equity Offering.

EURO NOTES

Except as set forth below and under "-- Withholding Taxes", FFBV will not be entitled to redeem the Euro Notes at its option prior to August 15, 2005. On and after August 15, 2005, FFBV will be entitled at its option to redeem all or a portion of the Euro Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| PERIOD | REDEMPTION PRICE |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000 |

In addition, before August 15, 2003, FFBV may at its option on one or more occasions redeem Euro Notes (which includes Additional Euro Notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Euro Notes (which includes Additional Euro Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds contributed to it by the Company from one or more Public Equity Offerings; provided that

(1) at least 65% of such aggregate principal amount of Euro Notes (which includes Additional Euro Notes, if any) remains outstanding immediately after the occurrence of each such redemption (other than Euro Notes held, directly or indirectly, by the Company, FFBV or any of their respective Affiliates); and

(2) each such redemption occurs within 60 days after the closing date of the related Public Equity Offering.



WITHHOLDING TAXES

FFBV is required to make all its payments under or with respect to the Euro Notes free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (hereinafter "Taxes") imposed or levied by or on behalf of the government of The Netherlands or any political subdivision or any authority or agency therein or thereof having power to tax, or within any other jurisdiction in which it is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each a "Relevant Taxing Jurisdiction"), unless it is required to withhold or deduct Taxes by law or by the interpretation or administration thereof.

If FFBV is so required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Euro Notes, it will be required to pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by you (including Additional Amounts) after such withholding or deduction will not be less than the amount you would have received if such Taxes had not been withheld or deducted; provided, however, that the foregoing obligation to pay Additional Amounts does not apply to (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding outside of The Netherlands of such Euro Note); or (2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge; nor will it pay Additional Amounts (a) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Euro Note for payment within 30 days after the date on which such payment or such Euro Note became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the holder would have been entitled to Additional Amounts had the Euro Note been presented on the last day of such 30 day period), (b) with respect to any payment of principal of (or premium, if any, on) or interest on such Euro Note to any holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Euro Note, (c) if Euro Notes are presented for payment in The Netherlands; provided, however, that at such time FFBV has at least one paying agent in the European Union (other than in The Netherlands), or (d) if Euro Notes are presented for payment by, or on behalf of, a Holder who would be able to avoid withholding or deduction by presenting any form or certificate and/or making a declaration of non-residence or similar claim for exemption but fails to do so.

Upon request, FFBV will provide the Euro Notes Trustee with official receipts or other documentation satisfactory to the Euro Notes Trustee evidencing the payment of the Taxes with respect to which Additional Amounts are paid.

Whenever in the Euro Indenture there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of Euro Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Euro Notes,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.



FFBV will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery, enforcement or registration of the Euro Notes, the Euro Indenture or any other document or instrument in relation thereof, or the receipt of any payments with respect to the Euro Notes, excluding such taxes, charges or similar levies imposed by any jurisdiction outside of The Netherlands, the jurisdiction of incorporation of any successor of FFBV or any jurisdiction in which a paying agent is located, and FFBV will agree to indemnify the Holders for any such taxes paid by such Holders.

The obligations described under this heading will survive any termination, defeasance or discharge of the Euro Indenture and will apply mutatis mutandis to any jurisdiction in which any successor Person to FFBV is organized or any political subdivision or taxing authority or agency thereof or therein.

For a discussion of Netherlands withholding taxes applicable to payments under or with respect to the Euro Notes, see "Certain Tax Considerations".

GUARANTIES

The Dollar Notes Guarantors will jointly and severally guarantee, on a senior subordinated and full and unconditional basis, our obligations under the Dollar Notes. The Euro Notes Guarantors will jointly and severally guarantee, on a senior subordinated and full and unconditional basis, FFBV's obligations under the Euro Notes. The Dollar Notes Guarantors and the Euro Notes Guarantors are collectively referred to as the "Guarantors". The obligations of each Guarantor (other than the Company) that is a domestic subsidiary of the Company under its Guaranty will be limited as necessary to prevent that Guaranty from constituting a fraudulent conveyance under applicable law. See "Risk Factors -- Risks Relating to the Notes -- Federal or state laws allow courts, under specific circumstances, to void debts, including guaranties, and require holders of notes to return payments received from us and the domestic guarantors".

Each Guarantor (other than the Company) that makes a payment under its Guaranty will be entitled to a contribution from each other Guarantor in an amount equal to such other Guarantor's pro rata portion of such payment based on the respective net assets of all the Guarantors (other than the Company) at the time of such payment determined in accordance with GAAP.

If a Guaranty (other than the Guaranty of the Euro Notes by the Company) were rendered voidable, it could be subordinated by a U.S. court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Guarantor, and, depending on the amount of such indebtedness, such Guarantor's liability on its Guaranty could be reduced to zero. See "Risk Factors -- Risks Relating to the Notes -- Your right to receive payments on the notes will rank behind our and Flowserve Finance's Senior Indebtedness and possibly all of our and Flowserve Finance's future borrowings. Further, the guaranties of the notes will rank behind all of the guarantors' existing Senior Indebtedness and possibly all of their future borrowings".

The Guaranty of a Guarantor (other than FFBV's Guaranty of the Dollar Notes and the Company's Guaranty of the Euro Notes) will be released:

(1) upon the sale or other disposition (including by way of consolidation or merger) of a Guarantor;

(2) upon the sale or disposition of all or substantially all the assets of a Guarantor; or

(3) at such time as such Guarantor no longer Guarantees any other Indebtedness of the Company, FFBV or another Guarantor;

in the case of clauses (1) and (2), other than to the Company or an Affiliate of the Company and as permitted by the applicable Indenture.



RANKING

Senior Indebtedness versus Notes

The payment of the principal of, premium, if any, and interest on the Dollar Notes and the Euro Notes and the payment of any Guaranty is subordinate in right of payment to the prior payment in full of all Senior Indebtedness of the Company, FFBV or the relevant Guarantor, as the case may be, including the obligations of the Company, FFBV and such Guarantor in respect of the Credit Agreement.

As of June 30, 2000, after giving pro forma effect to the Transactions:

(1) the Company's Senior Indebtedness would have been approximately $750.0 million, all of which would have been secured indebtedness; and

(2) FFBV and the Guarantors (other than the Company) would have had no Senior Indebtedness other than their obligations as guarantors of the Company's obligations under the Credit Agreement.

Although the Indentures contain limitations on the amount of additional

Indebtedness that the Company, FFBV and the Guarantors may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be Senior Indebtedness. See "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness".

Liabilities of Subsidiaries versus Notes

A substantial portion of our operations are conducted through our foreign subsidiaries. None of our foreign subsidiaries are guaranteeing the Notes except FFBV (in the case of the Dollar Notes) and Flowserve International (in the case of both the Dollar Notes and Euro Notes). Claims of creditors of such non-guarantor subsidiaries, including trade creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will effectively have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of our creditors and FFBV's creditors, including holders of the Notes, even if such claims do not constitute Senior Indebtedness. Accordingly, the Notes and each Guaranty will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of such non-guarantor subsidiaries.

At December 31 1999, after giving pro forma effect to the Transactions, the total liabilities of the Company's subsidiaries (other than FFBV and the other Guarantors) would have been approximately $344.3 million, including trade payables. Although the Indentures limit the incurrence of Indebtedness and preferred stock of certain of our subsidiaries, each such limitation is subject to a number of significant qualifications. Moreover, the Indentures do not impose any limitation on the incurrence by such subsidiaries of liabilities that are not considered Indebtedness under the Indentures. See "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness".

Other Senior Subordinated Indebtedness versus Notes

Only Indebtedness of the Company, FFBV or another Guarantor that is Senior Indebtedness of such Person will rank senior to the Dollar Notes, the Euro Notes or the relevant Guaranty, as the case may be, in accordance with the provisions of the applicable Indenture. The Dollar Notes, the Euro Notes and each Guaranty will in all respects rank pari passu with all other Senior Subordinated Indebtedness of the Company, FFBV and the relevant Guarantor, respectively.

The Company, FFBV and the other Guarantors have agreed in the applicable Indenture that the Company, FFBV and such Guarantors will not Incur, directly or indirectly, any Indebtedness that is contractually subordinate or junior in right of payment to the Company's Senior Indebtedness, FFBV's



Senior Indebtedness or the Senior Indebtedness of such Guarantors, unless such Indebtedness is Senior Subordinated Indebtedness of such Person or is expressly subordinated in right of payment to Senior Subordinated Indebtedness of such Person. The Indentures do not treat unsecured Indebtedness as subordinated or junior to Secured Indebtedness merely because it is unsecured.

Payment of Notes

We and FFBV are not permitted to pay principal of, premium, if any, or interest on the Dollar Notes or Euro Notes, respectively, or make any deposit pursuant to the provisions described under "-- Defeasance" below and may not purchase, redeem or otherwise retire any Dollar Notes or Euro Notes, respectively (collectively, "pay the Notes"), if either of the following occurs (a "Payment Default"):

(1) any Designated Senior Indebtedness of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) is not paid in cash when due; or

(2) any other default on Designated Senior Indebtedness of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms;

unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash. Regardless of the foregoing, we and FFBV are permitted to pay the Dollar Notes and the Euro Notes, respectively, if the applicable issuer and the applicable Trustee receive written notice approving such payment from the Representatives of all applicable Designated Senior Indebtedness with respect to which the Payment Default has occurred and is continuing.

During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of the Company or FFBV, as the case may be, pursuant to which the maturity thereof may be accelerated without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, we and FFBV are not permitted to pay the Dollar Notes and the Euro Notes, respectively, for a period (a "Payment Blockage Period") commencing upon the receipt by the applicable Trustee (with a copy to the applicable issuer) of written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period will end earlier if such Payment Blockage Period is terminated:

(1) by written notice to the applicable Trustee and us or FFBV, as applicable, from the Person or Persons who gave such Blockage Notice;

(2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing; or

(3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash.

Notwithstanding the provisions described above, unless the holders of such Designated Senior Indebtedness or the Representative of such Designated Senior Indebtedness have accelerated the maturity of such Designated Senior Indebtedness, we and FFBV are permitted to resume paying the Dollar Notes and the Euro Notes, respectively, after the end of such Payment Blockage Period. Neither the Dollar Notes nor the Euro Notes shall be subject to more than one Payment Blockage Period in any consecutive 360-day period irrespective of the number of defaults with respect to Designated Senior Indebtedness during such period, except that if any Blockage Notice is delivered to the applicable Trustee by or on behalf of holders of Designated Senior Indebtedness (other than holders of the Bank Indebtedness), a Representative of holders of the Bank Indebtedness may give another Blockage Notice within such period. However, in no event may the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any 360-consecutive day period, and there must be 181 days during any 360-day consecutive period during which no Payment Blockage Period is in effect.



For purposes of this provision, no default or event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of the Company and FFBV initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

Upon any payment or distribution of the assets of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) upon a total or partial liquidation or dissolution or reorganization of or similar proceeding relating to the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) or its respective property:

(1) the holders of Senior Indebtedness of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) will be entitled to receive payment in full in cash of such Senior Indebtedness before the holders of the applicable Notes are entitled to receive any payment;

(2) until the Senior Indebtedness of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) is paid in full in cash, any payment or distribution to which holders of the applicable Notes

would be entitled but for the subordination provisions of the applicable Indenture will be made to holders of such Senior Indebtedness as their interests may appear, except that holders of the applicable Notes may receive certain Capital Stock and subordinated debt obligations; and

(3) if a distribution is made to holders of the applicable Notes that, due to the subordination provisions, should not have been made to them, such holders of the applicable Notes are required to hold it in trust for the holders of Senior Indebtedness of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) and pay it over to them as their interests may appear.

If payment of the Dollar Notes or the Euro Notes is accelerated because of an Event of Default, the Company or FFBV, as the case may be, or the applicable Trustee must promptly notify the holders of Designated Senior Indebtedness of the applicable issuer or the Representative of such Designated Senior Indebtedness of the acceleration. If any Designated Senior Indebtedness of the applicable issuer is outstanding, neither the Company or FFBV, as the case may be, nor any Guarantor may pay the Dollar Notes or the Euro Notes, as the case may be, until five Business Days after the Representatives of all the issues of Designated Senior Indebtedness receive notice of such acceleration and, thereafter, may pay the applicable Notes only if the applicable Indenture otherwise permits payment at that time.

A Guarantor's obligations under its Guaranty are senior subordinated obligations. As such, the rights of Noteholders to receive payment by a Guarantor pursuant to its Guaranty will be subordinated in right of payment to the rights of holders of Senior Indebtedness of such Guarantor. The terms of the subordination provisions described above with respect to the Company's obligations under the Dollar Notes and FFBV's obligations under the Euro Notes apply equally to a Guarantor of such Notes and the obligations of such Guarantor under its Guaranty.

By reason of the subordination provisions contained in the Indentures, in the event of a liquidation or insolvency proceeding, creditors of the Company, FFBV or a Guarantor who are holders of Senior Indebtedness of the Company, FFBV or a Guarantor, as the case may be, may recover more, ratably, than the holders of the Dollar Notes or the Euro Notes, as the case may be, and creditors of the Company, FFBV or a Guarantor, as applicable, who are not holders of Senior Indebtedness of such Person may recover less, ratably, than holders of Senior Indebtedness and may recover more, ratably, than the holders of the Dollar Notes or the Euro Notes, as the case may be.



The terms of the subordination provisions described above will not apply to payments from money or the proceeds of securities held in trust by the applicable Trustee for the payment of principal of and interest on the Dollar Notes or the Euro Notes pursuant to the provisions described under "-- Defeasance".

## BOOK-ENTRY, DELIVERY AND FORM

### DOLLAR NOTES

The old Dollar Notes were, and the new Dollar Notes will be, issued in the form of one or more global dollar notes (the "Global Dollar Note"). The Global Dollar Note will be deposited with, or on behalf of, the Depository and registered in the name of the Depository or its nominee. Except as set forth below, the Global Dollar Note may be transferred, in whole and not in part, only to the Depository or another nominee of the Depository. You may hold your beneficial interests in the Global Dollar Note directly through the Depository if you have an account with the Depository or indirectly through organizations which have accounts with the Depository.

The Depository has advised the Company as follows: the Depository is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and "a clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository was created to hold securities of institutions that have accounts with the Depository ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities

through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers (which may include the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to the Depository's book-entry system is also available to others such as banks, brokers, dealers and trust companies (collectively, the "indirect participants") that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

The Company expects that pursuant to procedures established by the Depository, upon the deposit of the Global Dollar Note with the Depository, the Depository will credit, on its book-entry registration and transfer system, the principal amount of Dollar Notes represented by such Global Dollar Note to the accounts of participants. The accounts to be credited shall be designated by the Initial Purchasers. Ownership of beneficial interests in the Global Dollar Note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the Global Dollar Note will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by the Depository (with respect to participants' interests), the participants and the indirect participants (with respect to the owners of beneficial interests in the Global Dollar Note other than participants). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer or pledge beneficial interests in the Global Dollar Note.

So long as the Depository, or its nominee, is the registered holder and owner of the Global Dollar Note, the Depository or such nominee, as the case may be, will be considered the sole legal owner and holder of any related Dollar Notes evidenced by the Global Dollar Note for all purposes of such Dollar Notes and the Dollar Notes Indenture. Except as set forth below, as an owner of a beneficial interest in the Global Dollar Note, you will not be entitled to have the Notes represented by the Global Dollar Note registered in your name, will not receive or be entitled to receive physical delivery of certificated Dollar Notes and will not be considered to be the owner or holder of any Dollar Notes under the Global Dollar Note. We understand that under existing industry practice, in the event an owner of a beneficial interest in the Global Dollar Note desires to take any action that the Depository, as the holder of the Global Dollar Note, is entitled to take, the Depository would authorize the participants to take such action, and the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.



We will make payments of principal of, premium, if any, and interest on Dollar Notes represented by the Global Dollar Note registered in the name of and held by the Depository or its nominee to the Depository or its nominee, as the case may be, as the registered owner and holder of the Global Dollar Note.

We expect that the Depository or its nominee, upon receipt of any payment of principal of, premium, if any, or interest on the Global Dollar Note will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Dollar Note as shown on the records of the Depository or its nominee. We also expect that payments by participants or indirect participants to owners of beneficial interests in the Global Dollar Note held through such participants or indirect participants will be governed by standing instructions and customary practices and will be the responsibility of such participants or indirect participants. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Dollar Note for any Dollar Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between the Depository and its participants or indirect participants or the relationship between such participants or indirect participants and the owners of beneficial interests in the Global Dollar Note owning through such participants.

Although the Depository has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Dollar Note among participants of the Depository, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Dollar Notes Trustee nor the Company will have any responsibility or

liability for the performance by the Depository or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

EURO NOTES

The Euro Notes will be represented by a global Euro Note. The global Euro Note will be issued in registered form without coupons and the global Euro Note represents the aggregate principal amount of the outstanding Euro Notes. The global Euro Note will be deposited with, or on behalf of The Bank of New York Depositary (Nominees) Limited as common depositary for the Euroclear System ("Euroclear") and for Clearstream Banking, societe anonyme ("Clearstream, Luxembourg"), formerly known as Cedelbank, and will be, registered in the name of a nominee of the common depositary.

Upon the issuance of a global Euro Note, Euroclear or Clearstream, Luxembourg, as the case may be, will credit the accounts of persons holding through it with the respective principal amounts represented by such global Euro Note purchased by such person in this offering. Such accounts shall be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg ("participants") or persons who may hold interests through participants. Ownership of beneficial interests in a global Euro Note will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to participants' interests) and such participants (with respect to the owners of beneficial interests in such global Euro Notes other than participants).

Payment of principal of and interest on Euro Notes represented by a global Euro Note will be made in immediately available funds to the common depositary for Euroclear and Clearstream, Luxembourg or its nominee, as the case may be, as the sole registered owner and the sole holder of the global Euro Notes represented thereby for all purposes under the Euro Notes Indenture. FFBV has been advised by Euroclear and Clearstream, Luxembourg that upon receipt of any payment of principal of or interest on any global Euro Note, Euroclear and Clearstream, Luxembourg will immediately credit, on their respective book-entry registration and transfer systems, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal or face amount of such global Euro Note as shown on the records of Euroclear and Clearstream, Luxembourg. Payments by participants to owners of beneficial interests in a global Euro Note held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in "street name" and will be the sole responsibility of such participants.



Purchasers of book-entry interests in the Euro Notes will hold their book-entry interests in an underlying global Euro Note.

So long as the common depositary for Euroclear and Clearstream, Luxembourg or its nominee, as the case may be, is the registered owner of a global Euro Note, The Bank of New York Depositary (Nominees) Limited or such successor depositary or such party will be considered the sole owner or holder of the Euro Notes represented by such global Euro Note for all purposes under the Euro Notes Indenture and the Euro Notes. Except as set forth above, owners of beneficial interests in a global Euro Note will not be entitled to have the Euro Notes represented by such global Euro Note registered in their names, will not receive or be entitled to receive physical delivery of certificated Euro Notes in definitive form and will not be considered to be the owners or holders of any Euro Notes under such global Euro Note. Accordingly, each Person owning a beneficial interest in a global Euro Note must rely on the procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and, if such Person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Euro Notes Indenture. FFBV understands that under existing industry practices, in the event that FFBV requests any action of holders or that an owner of a beneficial interest in a global Euro Note desires to give or take any action which a holder is entitled to give or take under the Euro Indenture, Euroclear or Clearstream, Luxembourg, as the case may be, would authorize the participants holding the relevant beneficial interest to give or take such action and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

FFBV understands that Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deals with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and Clearstream, Luxembourg have established and electronic bridge between their two systems which enables their respective account holders to settle trades with each other.

Account holders in Euroclear and Clearstream, Luxembourg are world-wide financial institutions including underwriters, securities brokers, and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under those rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective holders.

CERTIFICATED NOTES

Subject to certain conditions, the Notes represented by the Global Notes are exchangeable for certificated Notes of the same series in definitive form of like tenor in denominations of $1,000 (in the case of the Dollar Notes) or E1,000 (in the case of the Euro Notes) and integral multiples thereof if

(1) the Depository (in the case of the Dollar Notes) or Euroclear and Clearstream, Luxembourg (in the case of the Euro Notes) notify us that it is unwilling or unable to continue as a clearing agency for the applicable Global Notes and we are unable to locate a qualified successor clearing agency within 90 days;



(2) we or FFBV, as the case may be, in our discretion at any time determine not to have all the Dollar Notes or the Euro Notes, respectively, represented by a Global Note; or

(3) a default entitling the holders of the Dollar Notes or the Euro Notes, as the case may be, to accelerate the maturity thereof has occurred and is continuing.

Any Note that is exchangeable as above is exchangeable for certificated Notes issuable in authorized denominations and registered in such names as the applicable depositary shall direct. Subject to the foregoing, the Global Notes are not exchangeable, except for Global Notes of the same aggregate denomination to be registered in the name of the applicable depository or its nominee.

SAME-DAY PAYMENT

Each Indenture requires us and FFBV, as applicable, to make payments in respect of the applicable Notes (including principal, premium and interest) by wire transfer of immediately available funds to the U.S. dollar accounts with banks in the U.S. (in the case of the Dollar Notes) or to the Euro accounts with banks in the European Union (in the case of the Euro Notes) specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address.

EXCESS CASH FLOW REPURCHASE OFFER

(a) If the Company has Excess Cash Flow for any fiscal year (commencing with the fiscal year ending December 31, 2001), no later than the 120th day

following the end of such fiscal year, the Company shall apply an amount equal to 50% of the Excess Cash Flow for such fiscal year:

(1) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase (and permanently reduce the commitments thereunder) Senior Indebtedness of the Company with such percentage of Excess Cash Flow;

(2) second, to the extent of the balance of such percentage of Excess Cash Flow after application in accordance with clause (1), to make an offer to the holders of the Dollar Notes and Euro Notes (and to holders of other Senior Subordinated Indebtedness of the Company or FFBV designated by the Company) to purchase, on a pro rata basis, Dollar Notes and Euro Notes (and such other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to and subject to the conditions contained in the Indentures (an "Excess Cash Flow Offer"); and

(3) third, to the extent of the balance of such percentage of Excess Cash Flow after application in accordance with clause (1) or (2) above, to any other application or use not prohibited by the Indentures;

provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (1) above, the Company shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased; and provided, further, that no Excess Cash Flow Offer shall be required to be made if the Company's Leverage Ratio is less than 3.0 to 1.0 on the last day of such fiscal year.

(b) In the event of an Excess Cash Flow Offer, the Company will be required to purchase, on a pro rata basis, Dollar Notes and Euro Notes tendered pursuant to an offer by the Company for the Notes (and other Senior Subordinated Indebtedness of the Company and FFBV, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of such Senior Subordinated Indebtedness, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indentures. If the aggregate purchase price of securities tendered pursuant to such offer is less than the Excess Cash Flow allotted to their purchase, the Company will be entitled to apply the remaining Excess



Cash Flow in accordance with clause (a)(3) above. The Company shall not be required to make an Excess Cash Flow Offer to purchase Notes (and other Senior Subordinated Indebtedness) pursuant to this covenant if the Excess Cash Flow available therefor is less than $5.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Excess Cash Flow in any subsequent fiscal year).

(c) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this clause by virtue of its compliance with such securities laws or regulations.

CHANGE OF CONTROL

Upon the occurrence of any of the following events (each a "Change of Control"), each Holder shall have the right to require that the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date):

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a majority of the total voting power of the Voting Stock of the Company (for the purposes of this clause (1), such other person shall be deemed to beneficially own any Voting Stock of a Person (the "specified person") held by any other Person (the "parent entity"), if such other person is the beneficial owner (as defined above in this clause (1)), directly or indirectly, of a majority of the voting power of the Voting Stock of such parent entity);

(2) individuals who on the Issue Date constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of 66 2/3% of the directors of the Company then still in office who were either directors on the Issue Date or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or

(3) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person, other than a transaction following which in the case of a merger or consolidation transaction, securities that represented 100% of the Voting Stock of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) constitute at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction.

Within 30 days following any Change of Control, the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) will mail a notice to each Holder with a copy to the Trustee (the "Change of Control Offer") stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) to purchase such Holder's applicable Notes at a purchase price in cash equal to 101% of the principal amount





thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including relevant information with respect to income, cash flow and capitalization;

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions, as determined by us (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes), consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased.

The Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the relevant Indenture applicable to a Change of Control Offer made by us (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) and purchases all Dollar Notes or Euro Notes, as the case may be, validly tendered and not withdrawn under such Change of Control Offer.

The Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations

in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) will comply with the applicable securities laws and regulations and shall not be deemed to have breached the obligations under the covenant described hereunder by virtue of compliance with such securities laws or regulations.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations among the Company, FFBV and the Initial Purchasers. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indentures, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness". Such restrictions can only be waived with the consent of the holders of a majority in principal amount of the applicable Notes then outstanding. Except for the limitations contained in such covenants, however, the Indentures will not contain any covenants or provisions that may afford holders of the Notes protection in the event of a highly leveraged transaction.

The Credit Agreement generally prohibits us and FFBV from purchasing Notes, and also provides that the occurrence of certain change of control events with respect to the Company would constitute a default thereunder. In the event that at the time of such Change of Control the terms of any applicable Senior Indebtedness (including the Credit Agreement) restrict or prohibit the purchase of Notes following such Change of Control, then prior to the mailing of the notice to Holders but in any event within 30 days following any Change of Control, each of the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) undertakes to (i) repay in full all such applicable Senior Indebtedness or (ii) obtain the requisite consents under the agreements governing such Senior Indebtedness to permit the repurchase of the applicable Notes. If the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) do not repay such Senior Indebtedness or obtain such consents, the Company and FFBV, respectively, will remain prohibited from purchasing Notes. In such case, the Company's and





FFBV's failure to comply with the foregoing undertaking, after appropriate notice and lapse of time would result in an Event of Default under the applicable Indenture, which would, in turn, constitute a default under the Credit Agreement. In such circumstances, the subordination provisions in the applicable Indenture would likely restrict payment to the Holders of Notes.

Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) to repurchase the Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us or FFBV. Finally, the Company's and FFBV's ability to pay cash to the holders of Notes following the occurrence of a Change of Control may be limited by the Company's and FFBV's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The provisions under the Indentures relative to the Company's and FFBV's respective obligation to make an offer to repurchase the Dollar Notes and the Euro Notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the Dollar Notes and the Euro Notes, respectively.

## CERTAIN COVENANTS

### COVENANTS APPLICABLE TO THE DOLLAR NOTES AND THE EURO NOTES

Each Indenture contains covenants including, among others, the following:

Limitation on Indebtedness

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Company will be entitled to Incur Indebtedness, and its Restricted Subsidiaries will be entitled to Incur Eligible Indebtedness, in each case if, on the date of such Incurrence and after giving effect thereto no Default has occurred and is continuing and, the Consolidated Coverage Ratio exceeds 2.0 to 1 if such Indebtedness is Incurred prior to September 1, 2003, or 2.25 to 1 if such Indebtedness is Incurred thereafter.

(b) Notwithstanding the foregoing paragraph (a), the Company and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by the Company pursuant to any Revolving Credit Facility; provided, however, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed the greater of (A) $300.0 million and (B) the sum of (x) 50% of the book value of the inventory of the Company and its Restricted Subsidiaries and (y) 50% of the book value of the accounts receivable of the Company and its Restricted Subsidiaries (other than any accounts receivable constituting Receivables and Related Assets pledged, sold or otherwise transferred or encumbered in connection with a Receivables Program), less the sum of all principal payments made with respect to such Indebtedness in satisfaction of the provisions of paragraph (a)(3)(A) of the covenant described under "-- Limitation on Sales of Assets and Subsidiary Stock";

(2) Indebtedness Incurred by the Company pursuant to any Term Loan Facility; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (2) and then outstanding does not exceed $750.0 million less the aggregate sum of all principal payments actually made from time to time after the Issue Date with respect to such Indebtedness (other than principal payments made from any permitted Refinancings thereof);





(3) Indebtedness Incurred by a Receivables Subsidiary pursuant to a Receivables Program; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (3) and then outstanding does not exceed $400.0 million;

(4) Indebtedness owed to and held by the Company or a Wholly Owned Subsidiary; provided, however, that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Wholly Owned Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Company or FFBV is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Dollar Notes and the Euro Notes, respectively;

(5) the Notes and the Exchange Notes (other than any Additional Dollar Notes and Additional Euro Notes);

(6) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2), (3), (4) or (5) of this covenant);

(7) Indebtedness of a Person Incurred and outstanding on or prior to the date on which such Person becomes a Restricted Subsidiary (including upon merger or consolidation with the Company or any Restricted Subsidiary) or assumed in connection with the purchase of assets from another Person (other than Indebtedness Incurred by such Person in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to

which such Person became a Restricted Subsidiary or such Person or such assets were acquired by the Company); provided, however, that (A) with respect to any such Indebtedness Incurred prior to the first anniversary of the Issue Date, such Indebtedness is in an aggregate principal amount which when taken together with all other Indebtedness Incurred pursuant to this clause (7), does not exceed $50.0 million or (B) on the date of such acquisition and after giving pro forma effect thereto, the Company would have been able to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant;

(8) Indebtedness of the Company or any of its Restricted Subsidiaries attributable to Capital Lease Obligations, or Incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including any Indebtedness assumed in connection with the acquisition of any such assets, in an aggregate principal amount which, when taken together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (8) and then outstanding, does not exceed $25.0 million (including any Refinancing Indebtedness with respect thereto);

(9) Indebtedness under industrial revenue bonds in an aggregate principal amount which, when taken together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (9) and then outstanding, does not exceed $20.0 million;

(10) Indebtedness Incurred by Foreign Restricted Subsidiaries in an aggregate principal amount which, when taken together with all other Indebtedness of Foreign Restricted Subsidiaries Incurred pursuant to this clause (10) and then outstanding, does not exceed $25.0 million;

(11) Indebtedness of the Company, whether secured or unsecured, consisting of Guarantees of Permitted Employee Stock Purchase Loans;

(12) Indebtedness or other obligations solely in respect of worker's compensation claims, self-insurance obligations and surety, appeal and performance bonds entered into in the ordinary course of business of the Company and its Restricted Subsidiaries;

(13) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or pursuant to clause (5), (6) or (7) or this clause (13); provided, however, that to the extent such Refinancing Indebtedness directly or indirectly Refinances Indebtedness of a Subsidiary Incurred pursuant to clause (7), such Refinancing Indebtedness shall be Incurred only by such Subsidiary;



(14) Hedging Obligations under or with respect to Interest Rate Agreements, Currency Agreements or Commodity Agreements entered into in the ordinary course of business and not for the purpose of speculation;

(15) Indebtedness consisting of the Guaranty of a Guarantor;

(16) Indebtedness of the Company or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, provided that the Indebtedness is satisfied within five business days of Incurrence;

(17) Indebtedness of the Company or any Restricted Subsidiary consisting of indemnification, adjustment of purchase price or similar obligations, in each case incurred in connection with the disposition of any assets of the Company or any Restricted Subsidiary;

(18) Indebtedness consisting of the Guarantee by (i) the Company of any Indebtedness of a Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant and (ii) any Restricted Subsidiary of the Company of Indebtedness of the Company that was permitted to be Incurred by another provision of this covenant; and

(19) Indebtedness of the Company in an aggregate principal amount which, when taken together with all other Indebtedness of the Company

outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (18) above or paragraph (a)) does not exceed $25.0 million.

(c) Notwithstanding the foregoing, neither the Company nor any Dollar Notes Guarantor (in the case of the Dollar Notes) and neither FFBV nor any Euro Notes Guarantor (in the case of the Euro Notes) will Incur any Indebtedness pursuant to the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Company or any Dollar Notes Guarantor (in the case of the Dollar Notes) or FFBV or any Euro Notes Guarantor (in the case of the Euro Notes) unless such Indebtedness shall be subordinated to the applicable Notes or the applicable Guaranty to at least the same extent as such Subordinated Obligations.

(d) For purposes of determining compliance with this covenant, (1) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Company and FFBV, as the case may be, in its sole discretion, will classify such item of Indebtedness at the time of Incurrence and only be required to include the amount and type of such Indebtedness in one of the above clauses and (2) the Company and FFBV, as the case may be, will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above.

(e) Notwithstanding paragraphs (a) and (b) above, neither the Company nor any Dollar Notes Guarantor (in the case of the Dollar Notes) and neither FFBV nor any Euro Notes Guarantor (in the case of the Euro Notes) will Incur (1) any Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness of such Person, unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness of such Person or (2) any Secured Indebtedness that is not Senior Indebtedness of such Person unless contemporaneously therewith such Person makes effective provision to secure the applicable Notes equally and ratably with such Secured Indebtedness for so long as such Secured Indebtedness is secured by a Lien.

(f) For purposes of determining compliance with any U.S. dollar or Euro denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent or Euro Equivalent, as the case may be, determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars or Euros, as the case may be, covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars or Euros will be as provided



in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the Euro Equivalent or U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (i) such U.S. Dollar Equivalent or Euro Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (ii) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent or Euro Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred.

Limitation on Restricted Payments

(a) The Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Company is not entitled to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "-- Limitation on Indebtedness"; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (without

duplication):

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which internal financial statements are available on or prior to the date of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus

(B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of, or cash capital contribution in respect of, its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); plus

(C) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investment, and proceeds representing the return of capital (to the extent not included in Consolidated Net Income), in each case received by the Company or any Restricted Subsidiary, and (y) to the extent such Person is an Unrestricted Subsidiary, the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that the foregoing sum shall not exceed, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person or Unrestricted Subsidiary.

(b) The preceding provisions will not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company in respect of its Capital Stock (other than Disqualified Stock); provided, however, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and





(B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under clause (3)(B) of paragraph (a) above and under clause (4) below;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness which is permitted to be Incurred pursuant to the covenant described under "-- Limitation on Indebtedness"; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; provided, however, that at the time of payment of such dividend, no other Default shall have occurred and be continuing (or result therefrom); provided further, however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(4) so long as no Default has occurred and is continuing, the

repurchase or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries (A) from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), (B) in the open market to the extent such shares are acquired to satisfy a current obligation to deliver shares in connection with the exercise of stock options or similar rights, in each case pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such repurchases and other acquisitions shall not exceed in any calendar year the sum of (x) $5.0 million plus (y) the Net Cash Proceeds from the sale of Capital Stock to employees or directors of the Company (including pursuant to the exercise of stock options) that occur during such calendar year (to the extent such Net Cash Proceeds are not applied to the payment of a Restricted Payment pursuant to clause (1) above); provided further, however, that (i) such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments and (ii) the Net Cash Proceeds from such sales described in clause (y) shall be excluded from the calculation of amounts under clause (3)(B) of paragraph (a) above; or

(5) Restricted Payments not exceeding $15.0 million in the aggregate; provided, however, that (A) at the time of such Restricted Payments, no Default shall have occurred and be continuing (or result therefrom) and (B) such Restricted Payments shall be included in the calculation of Restricted Payments.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company, (b) make any loans or advances to the Company or (c) transfer any of its property or assets to the Company, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date, including the Indentures and the Credit Agreement as in effect on the Issue Date;

(2) any encumbrance or restriction with respect to a Receivables Subsidiary pursuant to a Receivables Program of such Receivables Subsidiary;

(3) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness





Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(4) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1), (2) or (3) of this covenant or this clause (4) or contained in any amendment to an agreement referred to in clause (1), (2) or (3) of this covenant or this clause (4); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment are, in the good faith judgment of the Board of Directors, no less favorable, taken as a whole, to the Noteholders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in such predecessor agreements;

(5) any such encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property

leased thereunder;

(6) in the case of clause (c) above, restrictions contained in security agreements or mortgages securing Indebtedness, or under letters of credit or bank guarantees, of a Restricted Subsidiary to the extent such restrictions restrict the transfer of, or the grant of security over, the property subject to such security agreements, mortgages, letters of credit or bank guarantees;

(7) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(8) purchase money obligations (including Capital Lease Obligations) for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (c) above;

(9) provisions with respect to the disposition or distribution of assets or property in joint venture agreements and other similar agreements in the ordinary course of business; and

(10) any such encumbrance or restriction with respect to a Foreign Restricted Subsidiary pursuant to an agreement governing Indebtedness Incurred by such Foreign Restricted Subsidiary.

Limitation on Sales of Assets and Subsidiary Stock

(a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless:

(1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of all non-cash consideration), as determined in good faith by the Board of Directors, of the shares and assets subject to such Asset Disposition;

(2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be)

(A) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Company or Indebtedness (other than any Disqualified Stock) of a Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;



(B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), to the extent the Company elects, to acquire Additional Assets within one year (or enter into a binding commitment therefor within such period and acquire such Additional Assets within 18 months) from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and

(C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an offer to the holders of the Dollar Notes and the Euro Notes (and to holders of other Senior Subordinated Indebtedness of the Company or FFBV designated by the Company) to purchase, on a pro rata basis, Dollar Notes and Euro Notes (and such other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to and subject to the conditions contained in the Indentures;

provided, however, that in connection with any prepayment, repayment or

purchase of Indebtedness pursuant to clause (A) or (C) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions of this covenant, (i) the Company and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant except to the extent that the aggregate Net Available Cash from all Asset Dispositions which are not applied in accordance with this covenant exceeds $10.0 million, and (ii) to the extent any Asset Disposition constitutes the disposition of Consent Decree Assets, the Company shall be required to apply the Net Available Cash from such Asset Disposition pursuant to clause (a)(3)(A) and the Company shall not be required to comply with clause (a)(1) above.

Pending application of Net Available Cash pursuant to this covenant, such Net Available Cash shall be invested in Temporary Cash Investments or applied to temporarily reduce revolving credit indebtedness.

For the purposes of this covenant, the following are deemed to be cash or cash equivalents:

(1) the assumption of Indebtedness of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and

(2) securities received by the Company or any Restricted Subsidiary from the transferee that are promptly converted by the Company or such Restricted Subsidiary into cash.

In addition, the Company may elect to deem Additional Assets (determined based on the fair market value of such assets) as cash and cash equivalents for purposes of this covenant; provided, however, that such Additional Assets were acquired for fair market value as part of the transaction constituting an Asset Disposition; and provided further, however, that such Additional Assets will be deemed to have been acquired in accordance with clause (a)(3)(B) above.

(b) In the event of an Asset Disposition that requires the purchase of the Notes (and other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to clause (a)(3)(C) above, the Company will purchase, on a pro rata basis, Dollar Notes and Euro Notes tendered pursuant to an offer by the Company for the Notes (and such other Senior Subordinated Indebtedness of the Company and FFBV, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of such other Senior Subordinated Indebtedness, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indentures. If the aggregate purchase price of the Dollar Notes and Euro Notes and other Senior Subordinated Indebtedness of the Company or FFBV tendered exceeds the Net Available Cash allotted to their purchase, the Company will select the Dollar Notes and Euro Notes and other Senior Subordinated Indebtedness of the Company or FFBV to be purchased on a pro rata basis but



in round denominations, which in the case of the Dollar Notes will be denominations of $1,000 principal amount or multiples thereof and in the case of the Euro Notes will be denominations of E1,000 principal amount or multiples thereof. The Company shall not be required to make such an offer to purchase Notes (and other Senior Subordinated Indebtedness) pursuant to this covenant if the Net Available Cash available therefor is less than $10.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or

regulations conflict with provisions of this covenant, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this clause by virtue of its compliance with such securities laws or regulations.

Limitation on Affiliate Transactions

(a) The Company will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction") unless:

(1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a Person who is not an Affiliate;

(2) if such Affiliate Transaction involves an amount in excess of $10.0 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company disinterested with respect to such Affiliate Transactions have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate Transaction as evidenced by a Board resolution; and

(3) if such Affiliate Transaction involves an amount in excess of $20.0 million, the Board of Directors shall also have received a written opinion from (A) an investment banking firm of national prominence or (B) an accounting or appraisal firm nationally recognized in making such determinations, in each case that is not an Affiliate of the Company to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries.

(b) The provisions of the preceding paragraph (a) will not prohibit:

(1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to the covenant described under "-- Limitation on Restricted Payments";

(2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options, stock ownership plans or other similar incentive arrangements approved by the Board of Directors;

(3) loans or advances to employees in the ordinary course of business in accordance with the past practices of the Company or its Restricted Subsidiaries, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time;

(4) guaranties of Permitted Employee Stock Purchase Loans;

(5) the payment of reasonable fees to directors of the Company and its Restricted Subsidiaries who are not employees of the Company or its Restricted Subsidiaries;



(6) any transaction with a Restricted Subsidiary or joint venture or similar entity which would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary, joint venture or similar entity;

(7) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company;

(8) any Receivables Program of the Company or a Restricted Subsidiary;

(9) customary directors' and officers' indemnification arrangements; and

(10) any agreement with the Company or any Restricted Subsidiary as in

effect as of the Issue Date and any amendment or replacement thereto or any transaction contemplated thereby so long as such amendment or replacement agreement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement as in effect on the Issue Date.

Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries

The Company

(1) will not, and will not permit any Restricted Subsidiary to, sell, lease, transfer or otherwise dispose of (but excluding any pledge of such Capital Stock otherwise permitted by the applicable Indenture) any Capital Stock of any Restricted Subsidiary to any Person (other than the Company or a Wholly Owned Subsidiary), and

(2) will not permit any Restricted Subsidiary to issue any of its Capital Stock (other than, if necessary, shares of its Capital Stock constituting directors' or other legally required qualifying shares) to any Person (other than to the Company or a Wholly Owned Subsidiary),

unless

(A) immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any of its Subsidiaries own any Capital Stock of such Restricted Subsidiary;

(B) immediately after giving effect to such issuance, sale or other disposition, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto would have been permitted to be made under the covenant described under "-- Limitation on Restricted Payments" if made on the date of such issuance, sale or other disposition; or

(C) the Company concurrently acquires sufficient shares of Capital Stock of such Restricted Subsidiary to at least maintain the same percentage ownership interest it had prior to the transaction.

Notwithstanding the foregoing, the issuance or sale of shares of Capital Stock of any Restricted Subsidiary of the Company will not violate the provisions of the immediately preceding sentence if such shares are issued or sold in connection with:

(i) the formation or capitalization of a Restricted Subsidiary, or

(ii) a single transaction or a series of substantially contemporaneous transactions whereby such Restricted Subsidiary becomes a Restricted Subsidiary of the Company by reason of the acquisition of securities or assets from another Person.



Merger and Consolidation

Neither the Company nor FFBV will consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless, in the case of the Company:

(1) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia or under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the applicable Trustee, in form satisfactory to such Trustee, all the obligations of the Company under the Dollar Notes and the Dollar Notes Indenture (in the case of the Dollar Notes) and under its Guaranty of the Euro Notes and the Euro Notes Indenture (in the case of the Euro Notes);

(2) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such

transaction), no Default shall have occurred and be continuing;

(3) immediately after giving pro forma effect to such transaction, the Successor Company would be able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "-- Limitation on Indebtedness";

(4) immediately after giving pro forma effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of the Company immediately prior to such transaction;

(5) the Company shall have delivered to each Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and each such supplemental indenture (if any) comply with the applicable Indenture;

(6) in the event that the Successor Company in any merger is organized and existing under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada (any such merger, a "Foreign Jurisdiction Merger"), the Company shall have delivered to each Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for U.S. Federal income tax purposes and, in the case of the Euro Notes, Netherlands tax purposes, as a result of such transaction and will be subject to U.S. Federal income tax and, in the case of the Euro Notes, Netherlands tax (if any), on the same amounts and at the same times as would have been the case if such transaction had not occurred; and

(7) in the event of a Foreign Jurisdiction Merger, the Company shall have delivered to each Trustee an Opinion of Counsel in the jurisdiction of the Successor Company to the effect that (A) any payment of interest or principal under or with respect to the applicable Notes or the applicable Guaranties will, after giving effect to such transaction, be exempt from any withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge of whatever nature imposed or levied by or on behalf of any jurisdiction from or through which payment is made or in which the payor is organized, resident or engaged in business for tax purposes and (B) no other taxes or income (including capital gains) will be payable by a Holder of Dollar Notes or Euro Notes, as the case may be, under the laws of any jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes in respect of the acquisition, ownership or disposition of the Notes, including the receipt of interest or principal thereon, provided that such Holder does not use or hold, and is not deemed to use or hold the Dollar Notes or the Euro Notes, as the case may be, in carrying on a business in the jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes.



provided, however, that clauses (3) and (4) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company or (B) the Company merging with an Affiliate of the Company solely for the purpose and with the sole effect of reincorporating the Company in another jurisdiction.

The Successor Company will be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under each Indenture, and the predecessor Company, except in the case of a lease, shall be released from the obligation to pay the principal of and interest on the Notes.

Each Indenture will provide that the Company will not permit any Guarantor (other than the Company which, in its capacity as a Guarantor of the Euro Notes, shall be bound by the provisions described above) to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:

(1) except in the case of a Guarantor that has been disposed of in its entirety to another Person (other than to the Company or an Affiliate of the Company), whether through a merger, consolidation or sale of Capital Stock or assets, the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the

jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person shall expressly assume, by Guaranty Agreements, in a form satisfactory to the applicable Trustee, all the obligations of such Guarantor, if any, under its Dollar Notes Guaranty and Euro Notes Guaranty;

(2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing; and

(3) the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) delivers to the applicable Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such Guaranty Agreement, if any, complies with the applicable Indenture.

Future Guarantors

The Company and FFBV will cause each domestic Restricted Subsidiary that Guarantees any Indebtedness of the Company, FFBV or any other Guarantor to, at the same time, execute and deliver to each Trustee a supplemental indenture pursuant to which such Restricted Subsidiary will Guarantee payment of the Dollar Notes and the Euro Notes on the same terms and conditions as those set forth in the applicable Indenture.

Concurrently with the closing of the Acquisition, IDP and its domestic subsidiaries will become Guarantors.

SEC Reports

Notwithstanding that the Company and FFBV may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company and FFBV will file with the SEC and provide the applicable Trustees and Noteholders with such annual reports and such information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such information, documents and other reports to be so filed and provided at the times specified for the filings of such information, documents and reports under such Sections; provided, however, that so long as the Company is a Guarantor of the Euro Notes (or the Exchange Euro Notes) and the rules and regulations of the SEC would permit FFBV (if subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act) to satisfy such reporting requirements with the reports, information and other documents required to be filed by the Company, the provision of such reports,



information and other documents by the Company hereunder shall be deemed to satisfy the obligations of FFBV hereunder.

In addition, the Company and FFBV shall furnish to the Holders of the Notes and to prospective investors, upon the requests of such Holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Securities Act.

COVENANTS APPLICABLE SOLELY TO THE EURO NOTES

The Euro Notes Indenture contains the following additional covenants:

Ownership of FFBV

FFBV will at all times be a Wholly Owned Subsidiary of the Company.

Limitation on Business Activities of FFBV

FFBV will not, and the Company will not permit FFBV to, (a) incur any Indebtedness other than (1) the Euro Notes (and the Exchange Euro Notes), (2) FFBV's Guaranty of the Dollar Notes (and the Exchange Dollar Notes), (3) FFBV's guaranty of obligations in respect of the Credit Agreement and (4) Indebtedness incurred in compliance with clause (b)(4) of the covenant described under "-- Covenants applicable to the Dollar Notes and the Euro Notes -- Limitation on

Indebtedness" and, in the case of (1) and (2), any refinancings or replacements thereof permitted by the covenant described under "-- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness" or (b) engage in any business activities other than (1) the issuance of the Euro Notes and the guaranties described in the preceding clause (a), (2) the making of Intercompany Loans and (3) activities incidental to the activities described in clauses (1) or (2) of this clause (b).

Limitation on Use of Proceeds

FFBV will use all the net proceeds of the issuance of the Euro Notes to make Intercompany Loans and pay fees and expenses of the offering of the Euro Notes, including customary organizational expenses of FFBV.

DEFAULTS

Each of the following is an Event of Default with respect to the Notes:

(1) a default in the payment of interest or any Additional Amounts on the Dollar Notes or the Euro Notes, as the case may be, when due, continued for 30 days;

(2) a default in the payment of principal of any Dollar Note or Euro Note, as the case may be, when due at its Stated Maturity, upon optional redemption, upon required purchase, upon declaration or otherwise;

(3) the failure by the Company or FFBV, as the case may be, to comply with its obligations under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Merger and Consolidation" above;

(4) the failure by the Company or FFBV, as the case may be, to comply for 30 days after notice with any of its respective obligations in the covenants described above under "Change of Control" (other than a failure to purchase Notes) or under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes" under "-- Limitation on Indebtedness", "-- Limitation on Restricted Payments", "-- Limitation on Restrictions on Distributions from Restricted Subsidiaries", "-- Limitation on Sales of Assets and Subsidiary Stock" (other than a failure to purchase Notes), "-- Limitation on Affiliate Transactions", "-- Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries", "-- Future Guarantors" or "-- SEC Reports" or, with respect to the Euro Notes only, the failure by the Company or FFBV to comply for 30 days after notice with any of its obligations under "-- Certain Covenants -- Covenants Applicable Solely to the Euro Notes" under



"-- Ownership of FFBV" or "-- Limitation on Business Activities of FFBV" or "-- Limitation on Use of Proceeds";

(5) the failure by the Company, FFBV, or any Guarantor to comply for 60 days after notice with its other agreements contained in the applicable Indenture;

(6) Indebtedness of a Guarantor, the Company, FFBV or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $10.0 million (the "cross acceleration provision");

(7) certain events of bankruptcy, insolvency or reorganization of the Company, FFBV or a Significant Subsidiary (the "bankruptcy provisions");

(8) any judgment or decree for the payment of money the uninsured amount of which is in excess of $10.0 million is entered against a Guarantor, the Company, FFBV or a Significant Subsidiary, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or stayed within 10 days after notice (the "judgment default provision"); or

(9) a Guaranty ceases to be in full force and effect (other than in accordance with the terms of the applicable Indentures) or a Guarantor denies or disaffirms its obligations under its Guaranty.

However, a default under clauses (4), (5) and (8) will not constitute an Event of Default until the applicable Trustee or the holders of 25% in principal amount of the outstanding Dollar Notes or Euro Notes, as the case may be, notify the Company or FFBV, as the case may be, of the default and the Company or FFBV, as the case may be, does not cure such default within the time specified after receipt of such notice.

If an Event of Default occurs and is continuing, the applicable Trustee or the holders of at least 25% in principal amount of the outstanding applicable Notes may declare the principal of and accrued but unpaid interest on all the applicable Notes to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company or FFBV, as the case may be, occurs and is continuing, the principal of and interest on all the applicable Notes will ipso facto become and be immediately due and payable without any declaration or other act on the part of the applicable Trustee or any holders of such Notes. Under certain circumstances, the holders of a majority in principal amount of the outstanding Dollar Notes or Euro Notes, as the case may be, may rescind any such acceleration with respect to the Dollar Notes or Euro Notes, as the case may be, and its consequences.

Subject to the provisions of each Indenture relating to the duties of the relevant Trustee, in case an Event of Default under an Indenture occurs and is continuing, the applicable Trustee will be under no obligation to exercise any of the rights or powers under such Indenture at the request or direction of any of the holders of the applicable Notes unless such holders have offered to such Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no holder of a Note may pursue any remedy with respect to the related Indenture or Notes unless:

(1) such holder has previously given the applicable Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in principal amount of the outstanding Notes of the applicable series have requested such Trustee to pursue the remedy;

(3) such holders have offered such Trustee reasonable security or indemnity against any loss, liability or expense;

(4) such Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and





(5) holders of a majority in principal amount of the outstanding Dollar Notes or Euro Notes, as the case may be, of such series have not given the applicable Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Dollar Notes or Euro Notes, as the case may be, are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the applicable Trustee or of exercising any trust or power conferred on the applicable Trustee. The applicable Trustee, however, may refuse to follow any direction that conflicts with law or the applicable Indenture or that the applicable Trustee determines is unduly prejudicial to the rights of any other holder of such Notes or that would involve the applicable Trustee in personal liability.

If a Default under an Indenture occurs, is continuing and is known to the relevant Trustee, such Trustee must mail to each holder of the Dollar Notes or Euro Notes, as the case may be, notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any Note, the applicable Trustee may withhold notice if and so long as a committee of its trust officers determines that withholding notice is not opposed to the interest of the holders of the applicable Notes. In addition, we (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) are required to deliver to each Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any

Default under the related Indenture that occurred during the previous year. We (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) are required to deliver to the applicable Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action we are taking or propose to take in respect thereof.

AMENDMENTS AND WAIVERS

Subject to certain exceptions, the Dollar Notes Indenture and the Euro Notes Indenture may be amended with the consent of the holders of a majority in principal amount of the Dollar Notes or the Euro Notes, respectively, then outstanding (including consents obtained in connection with a tender offer or exchange for such Notes) and any past default or compliance with any provisions may also be waived with the consent of the holders of a majority in principal amount of such Notes then outstanding. However, without the consent of each holder of an outstanding Dollar Note or Euro Note, as the case may be, affected thereby, an amendment may not, among other things:

(1) reduce the amount of Dollar Notes or the Euro Notes, as the case may be, whose holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Dollar Note or Euro Note, as the case may be;

(3) reduce the principal of or extend the Stated Maturity of any Dollar Note or Euro Note, as the case may be;

(4) reduce the amount payable upon the redemption of any Dollar Note or Euro Note, as the case may be, or change the time at which any Dollar Note or Euro Note, as the case may be, may be redeemed as described under "-- Optional Redemption" or, in the case of the Euro Notes only, "-- Withholding Taxes", above;

(5) make any Dollar Note or Euro Note, as the case may be, payable in money other than that stated in the Dollar Note or Euro Note, as the case may be;

(6) impair the right of any holder of the Dollar Notes or the Euro Notes, as the case may be, to receive payment of principal of and interest on such holder's Dollar Notes or Euro Notes, as the case may be, on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Dollar Notes or Euro Notes, as the case may be;



(7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions;

(8) make any change in the ranking or priority of any Dollar Note or Euro Note, as the case may be, that would adversely affect the applicable Noteholders;

(9) make any change in any Guaranty that would adversely affect the applicable Noteholders; or

(10) in the case of the Euro Notes only, make any change in the provisions of the Indenture described under "-- Withholding Taxes" that adversely affects the rights of any applicable Noteholder or amend the terms of the Euro Notes or the Euro Notes Indenture in a way that would result in the loss of an exemption from any of the Taxes described thereunder.

Notwithstanding the preceding, without the consent of any holder of the Dollar Notes or Euro Notes, as the case may be, the Company, FFBV, the Guarantors and relevant Trustee may amend an Indenture:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to provide for the assumption by a successor corporation of the obligations of the Company under such Indenture;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(4) to add guarantees with respect to the related Notes, including any Guaranties, to secure such Notes;

(5) to add to the covenants of the Company, FFBV or a Guarantor for the benefit of the holders of the such Notes or to surrender any right or power conferred upon the Company, FFBV or a Guarantor;

(6) to make any change that does not adversely affect the rights of any holder of such Notes; or

(7) to comply with any requirement of the SEC in connection with the qualification of such Indenture under the Trust Indenture Act.

However, no amendment may be made to the subordination provisions of such Indenture that adversely affects the rights of any holder of Senior Indebtedness of the Company, FFBV or a Guarantor then outstanding unless the holders of such Senior Indebtedness (or their Representative) consent to such change.

The consent of the holders of Notes is not necessary under an Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under an Indenture becomes effective, we (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) are required to mail to holders of the related Notes a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Notes, or any defect therein, will not impair or affect the validity of the amendment.

TRANSFER AND EXCHANGE

The Notes will be issued in registered form and will be transferable only upon the surrender of the Notes being transferred for registration of transfer. In connection with any such transfer, the Indentures will require the transferor to, among other things, furnish appropriate endorsements and transfer documents, to furnish certain certificates and to pay any taxes, duties and governmental charges in



connection with such transfer. Such transfer documents, if any, will be made available at the office of the Luxembourg Paying Agent where copies may be obtained on request.

Notwithstanding the foregoing, the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) are not required to register the transfer of any certificated Notes:

(1) for a period of 15 calendar days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 calendar days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 calendar days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with an offer in connection with a Change of Control offer or an Asset Disposition offer.

Any such transfer will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

DEFEASANCE

At any time, we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) may terminate all our or FFBV's obligations under the Dollar

Notes or the Euro Notes, as the case may be, and the related Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of such Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of such Notes.

In addition, at any time we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) may terminate our or FFBV's obligations under "-- Excess Cash Flow Repurchase Offer" and "-- Change of Control" and under the covenants described under "-- Certain Covenants" (other than the covenant described under "-- Merger and Consolidation"), the operation of the cross acceleration provision, the bankruptcy provisions with respect to Significant Subsidiaries and the judgment default provision described under "-- Defaults" above and the limitations contained in clauses (3) and (4) of the first paragraph under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Merger and Consolidation" above ("covenant defeasance").

We (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) may exercise our legal defeasance option notwithstanding our or their prior exercise of the covenant defeasance option. We and FFBV may exercise either option with respect to the Dollar Notes or the Euro Notes, as the case may be, without exercising any option with respect to the other series of Notes. If we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) exercise our legal defeasance option, payment of the applicable Notes may not be accelerated because of an Event of Default with respect thereto. If we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) exercise our covenant defeasance option, payment of the applicable Notes may not be accelerated because of an Event of Default specified in clause (4), (6), (7) (with respect only to Significant Subsidiaries) or (8) under "-- Defaults" above or because of the failure of the Company (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) to comply with clauses (3) and (4) of the first paragraph under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Merger and Consolidation" above. If we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) exercise our legal defeasance option or our covenant defeasance option, each applicable Guarantor will be released from all of its obligations with respect to its applicable Guaranty.

In order to exercise either of our or FFBV's defeasance options with respect to a series of Notes, we (in the case of the Dollar Notes) or FFBV (in the case of the Euro Notes) must irrevocably deposit in trust (the "defeasance trust") with the related Trustee money, U.S. Government Obligations (in the case



of the Dollar Notes or the Euro Notes) or European Governmental Obligations (in the case of the Euro Notes) for the payment of principal and interest on the Dollar Notes or the Euro Notes, as the case may be, to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the applicable Trustee of (i) an Opinion of Counsel to the effect that holders of the applicable Notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law) and (ii) an Opinion of Counsel in The Netherlands to the effect that (A) holders of the Euro Notes will not recognize income, gain or loss for Dutch federal or provincial income tax purposes as a result of such legal defeasance or covenant defeasance, as applicable, and will be subject to Dutch federal and provincial income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance or covenant defeasance, as applicable, had not occurred, and (B) payments from the defeasance trust will be free and exempt from any and all withholding and other income taxes of whatever nature of The Netherlands or any province thereof or any political subdivision thereof or therein having the power to tax. Money denominated in currency other than Euros and U.S. Government Obligations deposited in respect of the Euro Notes pursuant to this paragraph shall be subject in their entirety (including principal, interest and premium, if any) to a customary currency agreement that is of a duration not less than the defeasance period that fixes the exchange rate of such money or U.S. Government Obligations into Euros for the benefit of the Euro Notes Trustee. The

amount of such money and U.S. Government Obligations expressed in Euros will be as provided in such currency agreement. The counterparty to such currency agreement shall be a commercial bank organized in the United States having capital and surplus in excess of $500.0 million or a commercial bank organized under the laws of any country that is a member of the OECD having total assets in excess of $500.0 million (or its foreign currency equivalent at the time). Such counterparty may obtain from the Company and FFBV an opinion of counsel to the effect that such currency agreement has been duly authorized and entered into by the Company and FFBV.

CONCERNING THE TRUSTEE

The Bank of New York is to be the Dollar Notes Trustee under the Dollar Notes Indenture and the Euro Notes Trustee under the Euro Notes Indenture. The Bank of New York has been appointed as Registrar and Paying Agent with regard to the Dollar Notes and the Euro Notes.

Each Indenture contains certain limitations on the rights of the related Trustee, should it become a creditor of the Company or FFBV, as applicable, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. Each Trustee will be permitted to engage in other transactions; provided, however, if it acquires any conflicting interest it must either eliminate such conflict within 90 days or apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the outstanding Dollar Notes or Euro Notes, as the case may be, will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the related Trustee, subject to certain exceptions. If an Event of Default under an Indenture occurs (and is not cured), the applicable Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, such Trustee will be under no obligation to exercise any of its rights or powers under the related Indenture at the request of any Holder of the Dollar Notes or the Euro Notes, as the case may be, unless such Holder shall have offered to such Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of such Indenture.

NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND STOCKHOLDERS

No director, officer, employee, incorporator or stockholder of the Company, FFBV or any Guarantor will have any liability for any obligations of the Company, FFBV or any Guarantor under the Dollar Notes





or the Euro Notes, as the case may be, any Guaranty or the Dollar Notes Indenture or the Euro Notes Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Holder of the Dollar Notes or (to the extent permitted under Netherlands law) the Euro Notes, as the case may be, by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Dollar Notes and the Euro Notes. Such waiver and release may not be effective to waive liabilities under the U.S. federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

GOVERNING LAW

Each Indenture, Guaranty and the Dollar Notes and the Euro Notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

LISTING OF EURO NOTES

Application has been made to list the Euro Notes on the Luxembourg Stock Exchange.

PAYING AGENT AND REGISTRAR FOR THE EURO NOTES

FFBV has appointed The Bank of New York, as registrar and as paying agent in respect of the Global Euro Notes (the "US Paying Agent") and Banque

Internationale a Luxembourg as paying agent in Luxembourg (the "Luxembourg Paying Agent"). The US Paying Agent and the Luxembourg Paying Agent are collectively referred to herein as the "Euro Paying Agents". FFBV will ensure that for as long as any Euro Notes are outstanding there will always be a registrar and a paying agent to perform the functions assigned to them in the Euro Notes Indenture. FFBV has agreed to appoint the Luxembourg Paying Agent as transfer agent in the event the Euro Notes are issued in definitive registered form.

So long as the Euro Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, FFBV will maintain a paying agent and transfer agent in Luxembourg. If the Euro Notes are listed on any other securities exchange, FFBV will satisfy any requirement at such securities exchange as to paying agents. So long as the Euro Notes are listed on the Luxembourg Stock Exchange, any change in the paying agent or transfer agent shall be notified to holders of Euro Notes in accordance with the procedures described in "-- Notices".

NOTICES

So long as the Euro Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, FFBV will make publication of notices to the holders of the Euro Notes in a leading newspaper having general circulation in Luxembourg or, if such publication is not practicable, in one other leading daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it is published in Saturday, Sunday or holiday editions. For so long as the Euro Notes are listed on the Luxembourg Stock Exchange, a copy of all notices will be provided by FFBV to the Luxembourg Stock Exchange.

CONSENT TO JURISDICTION AND SERVICE

The Euro Notes Indenture will provide that FFBV will appoint CT Corporation System, 111 8th Avenue, 13th Floor, New York, New York 10011 as its agent for actions brought under Federal or state securities laws brought in any Federal or state court located in the Borough of Manhattan in The City of New York and will submit to such jurisdiction.



CERTAIN DEFINITIONS

"Acquisition" means the acquisition by the Company, directly or indirectly, of 100% of the partnership interests of Ingersoll-Dresser Pump Company.

"Additional Assets" means any:

(1) property, plant or equipment used in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

"Affiliate" of any specified Person means:

(1) any other Person, directly or indirectly, controlling or controlled by; or

(2) under direct or indirect common control with such specified Person.

For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the covenants described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the

Euro Notes -- Limitation on Restricted Payments", "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Affiliate Transactions" and "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Sales of Assets and Subsidiary Stock" only, "Affiliate" shall also mean any beneficial owner of Capital Stock representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary

(other than, in the case of clauses (1), (2) and (3)

(A) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary (or to a Restricted Subsidiary so long as the aggregate fair market value of all assets transferred to Restricted Subsidiaries pursuant to this clause (A) does not exceed $50.0 million);



(B) for purposes of the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Sales of Assets and Subsidiary Stock" only, a disposition that constitutes a Restricted Payment permitted by the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Restricted Payments" or a Permitted Investment;

(C) sales or other dispositions of obsolete, worn-out or otherwise unsuitable assets or excess equipment in the ordinary course of business; and

(D) a disposition of assets with a fair market value of less than $1,000,000).

Notwithstanding anything to the contrary set forth above, (x) unless, at the time of such disposition, the Company has Investment Grade Status, a disposition of Receivables and Related Assets shall be deemed to constitute an Asset Disposition and (y) a disposition of all or substantially all the assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the captions "-- Change of Control" and/or "Merger and Consolidation" and not by the provisions of the covenant described under "-- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Sales of Assets and Subsidiary Stock".

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the applicable Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing:

(1) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by

(2) the sum of all such payments.

"Bank Indebtedness" means all Obligations pursuant to the Credit Agreement.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board and (in the case of FFBV) the Board of Managing Directors.

"Business Day" means each day other than a Saturday, Sunday or a day on which commercial banking institutions are authorized or required by law to close in New York City and, in the case of the Euro Notes, Amsterdam, London or Luxembourg.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commodity Agreement" means, in respect of a Person, any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in commodity prices.



"Consent Decree" means the consent decree entered on July 28, 2000 in the U.S. District Court for the District of Columbia in the matter of United States of America v. Flowserve Corporation, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company relating to the purchase of Ingersoll-Dresser Pump Company by Flowserve Corporation.

"Consent Decree Assets" means the assets identified in the Consent Decree that Flowserve Corporation, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company have been ordered and directed to divest in connection with the Acquisition.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters for which internal financial statements are available ending on or prior to the date of such determination to (y) Consolidated Interest Expense for such four fiscal quarters; provided, however, that:

(1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the

Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that



would have required an adjustment pursuant to clause (3) or (4) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer (and shall include any applicable Pro Forma Cost Savings). If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest of such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months).

"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus, to the extent not included in such total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, without duplication:

(1) interest expense attributable to capital leases and the interest expense attributable to leases constituting part of a Sale/Leaseback Transaction;

(2) amortization of debt discount and debt issuance cost;

(3) capitalized interest;

(4) non-cash interest expenses;

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(6) net payments pursuant to Hedging Obligations;

(7) Preferred Stock dividends in respect of all Preferred Stock held by Persons other than the Company or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the issuer of such Preferred Stock);

(8) interest incurred in connection with Investments in discontinued operations;

(9) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by (or secured by the assets of) the Company or any Restricted Subsidiary and there shall have occurred and continues an event of default under such Indebtedness or any payment is actually made in respect of such Guarantee;

(10) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust; and

(11) any premiums, fees, discounts, expenses and losses on the sale of Receivables and Related Assets (and any amortization thereof) payable in connection with a Receivables Program, as determined on a consolidated basis in conformity with GAAP.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income



up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

(2) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income of any Restricted Subsidiary that is not a Subsidiary Guarantor if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Company's equity in a net loss of any such Restricted

Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain (but not loss) realized upon the sale or other disposition of any assets (other than any Consent Decree Assets) of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) extraordinary gains or losses; and

(6) the cumulative effect of a change in accounting principles.

Notwithstanding the foregoing, for the purposes of the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Restricted Payments" only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of the Investments or return of capital to the Company or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under such covenant pursuant to clause (a)(3)(C) thereof.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company ending at least 45 days prior to the taking of any action for the purpose of which the determination is being made, as the sum of:

(1) the par or stated value of all outstanding Capital Stock of the Company plus

(2) paid-in capital or capital surplus relating to such Capital Stock plus

(3) any retained earnings or earned surplus

less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock. In determining "Consolidated Net Worth," the Company shall exclude the impact of any write-off of deferred financing fees occurring in connection with any transaction subject to the covenant entitled "-- Merger and Consolidation" for the purpose of which the determination is being made.



"Credit Agreement" means the Credit Agreement by and among the Company, certain of its Subsidiaries, the lenders referred to therein, Credit Suisse First Boston, New York branch, as Syndication Agent, Bank of America, N.A., as Administrative Agent, Collateral Agent and Swingline Lender, and ABN-AMRO N.V., Bank One, N.A. and Salomon Smith Barney, Inc., as Co-Documentation Agents, together with the related documents thereto (including the term loans and revolving loans thereunder, any guarantees and security documents), as amended, extended, renewed, restated, refinanced, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to Refinance, in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under such Credit Agreement or a successor Credit Agreement, whether by the same or any other lender or group of lenders.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement designed to protect such Person against fluctuations in currency values.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" with respect to a Person means:

(1) the Bank Indebtedness; and

(2) any other Senior Indebtedness of such Person which, at the date of

determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least $25.0 million and is specifically designated by such Person in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of the applicable Indenture.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the applicable Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the applicable Notes shall not constitute Disqualified Stock if:

(1) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the applicable Notes and described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Sales of Assets and Subsidiary Stock" and "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Change of Control"; and

(2) any such requirement only becomes operative after compliance with such terms applicable to the applicable Notes, including the purchase of any Notes tendered pursuant thereto.

"Dollar Notes Guarantor" means FFBV, Flowserve International Limited, each direct or indirect Subsidiary of the Company that is a guarantor of Senior Indebtedness under the Credit Agreement and



each direct or indirect domestic Restricted Subsidiary that is a guarantor of any other Indebtedness of the Company.

"Dollar Notes Guaranty" means a Guarantee by a Dollar Notes Guarantor of the Company's obligations with respect to the Dollar Notes.

"EBITDA" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) all income tax expense of the Company and its consolidated Restricted Subsidiaries;

(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Company and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid operating activity item that was paid in cash in a prior period);

(4) all other non-cash charges of the Company and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period); and

(5) cash integration and restructuring charges in connection with the Acquisition and taken with respect to periods ended on or prior to December 31, 2001, in an aggregate amount not to exceed $65.0 million;

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

"Eligible Indebtedness" means any indebtedness other than:

(1) Indebtedness in the form of, or represented by, bonds or other securities or any guarantee thereof (other than a guarantee of Indebtedness of the Company in the form of, or represented by, bonds or other securities); and

(2) Indebtedness that is, or may be, quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the Securities Act).

"European Economic Area" means the member nations of the European Economic Area pursuant to the Oporto Agreement on the European Economic Area dated May 2, 1992, as amended.

"Euro Equivalent" means with respect to any monetary amount in a currency other than Euros, at any time of determination thereof, the amount of Euros obtained by converting such foreign currency involved in such computation into Euros at the spot rate for the purchase of Euros with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

"Euro Notes Guarantor" means the Company, Flowserve International Limited, each direct or indirect Subsidiary of the Company that is a guarantor of Senior Indebtedness under the Credit Agreement and each direct or indirect domestic Restricted Subsidiary that is a guarantor of any other Indebtedness of the Company.



"Euro Notes Guaranty" means a Guarantee by a Euro Notes Guarantor of FFBV's obligations with respect to the Euro Notes.

"European Governmental Obligation" means direct non-callable obligations of, or non-callable obligations permitted by, any member nation of the European Union, the payment or guarantee of which is secured by the full faith and credit of the respective nation, provided that such nation has a credit rating at least equal to that of the highest rated member nation of the European Economic Area.

"European Union" means the member nations to the third stage of economic and monetary union pursuant to the Treaty of Rome establishing the European Community, as amended by the Treaty on European Union, signed at Maastricht on February 7, 1992.

"Excess Cash Flow", with respect to the Company, has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Notes" means the debt securities of the Company (in the case of the Dollar Notes) and FFBV (in the case of the Euro Notes) issued pursuant to the applicable Indenture in exchange for, and in an aggregate principal amount at maturity equal to, the relevant Notes, in compliance with the terms of the relevant Registration Rights Agreement.

"Facilities" means the Term Loan Facilities and the Revolving Credit Facilities.

"Foreign Restricted Subsidiary" means a Restricted Subsidiary that is incorporated in a jurisdiction other than the United States or a State thereof or the District of Columbia and with respect to which more than 80% of any of its sales, earnings or assets (determined on a consolidated basis in accordance with GAAP) are located in, generated from or derived from operations located in territories outside of the United States of America and jurisdictions outside the United States of America.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants;

(2) statements and pronouncements of the Financial Accounting Standards Board;

(3) such other statements by such other entity as approved by a significant segment of the accounting profession; and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

All ratios and computations based on GAAP contained in the Indentures shall be computed in conformity with GAAP.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);



provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Guarantor" means a Dollar Notes Guarantor or a Euro Notes Guarantor, as applicable.

"Guaranty" means a Dollar Notes Guaranty or a Euro Notes Guaranty, as applicable.

"Guaranty Agreement" means a supplemental indenture, in a form satisfactory to the applicable Trustee, pursuant to which a Guarantor guarantees the Company's obligations with respect to the Dollar Notes or FFBV's obligations with respect to the Euro Notes on the terms provided for in the applicable Indenture.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holder" or "Noteholder" means the Person in whose name a Dollar Note or a Euro Note, as the case may be, is registered on the applicable Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by

merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall not be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/ Leaseback Transactions entered into by such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance, bank guaranty or similar credit transaction (other than obligations with respect thereto securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such Person to the extent such letters of credit, banker's acceptances, bank guaranties or similar credit transactions are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following payment thereon);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with the applicable Indenture (but excluding, in each case, any accrued dividends);

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such





Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets and the amount of the obligation so secured; and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

"Intercompany Loans" means the loans by FFBV to the Company or any of the Company's Wholly Owned Subsidiaries.

"Interest Rate Agreement" means in respect of a Person any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect such Person against fluctuations in interest rates.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person.

For purposes of the definition of "Unrestricted Subsidiary", the definition of "Restricted Payment" and the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Restricted Payments":

(1) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (A) the Company's "Investment" in such Subsidiary at the time of such redesignation less (B) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Investment Grade Status" means that the credit rating of the Company's senior unsecured, non-credit-enhanced long-term debt is (a) "BBB-" or higher according to Standard & Poor's Ratings Group or (b) "Baa 3" or higher according to Moody's Investors Service, Inc.

"Issue Date" means the date on which the Dollar Notes or the Euro Notes, as the case may be, are originally issued.

"Lenders" has the meaning specified in the Credit Agreement.

"Leverage Ratio" has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of



assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Obligations" means with respect to any Indebtedness all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, and other amounts payable pursuant to the documentation governing such Indebtedness.

"OECD" shall mean the Organization for Economic Cooperation and Development.

"Permitted Employee Stock Purchase Loans" means loans, in an aggregate amount outstanding at any time not to exceed $30.0 million, made by third parties (other than any Affiliate of the Company) to employees of the Company and its Subsidiaries who are participants in the Company's stock purchase program to enable such employees to purchase common stock of the Company.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in:

(1) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is a Related Business;

(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(3) cash and Temporary Cash Investments;

(4) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time;



(7) guaranties of Permitted Employee Stock Purchase Loans;

(8) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted

pursuant to the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Sales of Assets and Subsidiary Stock";

(10) so long as no Default shall have occurred and be continuing (or result therefrom), in Unrestricted Subsidiaries in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (10) which at such time have not been repaid, does not exceed $25.0 million;

(11) so long as no Default shall have occurred and be continuing (or result therefrom), in any Person in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (11) which at such time have not been repaid, does not exceed $25.0 million; and

(12) a trust, limited liability company, special purpose entity or other similar entity in connection with a Receivables Program; provided, however, that (A) such Investment is made by a Receivables Subsidiary and (B) the only assets transferred to such trust, limited liability company, special purpose entity or other similar entity consist of Receivables and Related Assets of such Receivables Subsidiary.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"principal" of a Note means the principal of the Note plus the premium, if any, payable on the Note which is due or overdue or is to become due at the relevant time.

"Pro Forma Cost Savings" means, with respect to any period, the reduction in costs that were (1) directly attributable to an asset acquisition and calculated on a basis that is consistent with Regulation S-X under the Securities Act in effect and applied as of the Issue Date; or (2) implemented by the business that was the subject of any such asset acquisition within 6 months of the date of such asset acquisition and that are supportable and quantifiable by the underlying accounting records of such business, in the case of each of (1) and (2), as if such reduction in costs had been effected as of the beginning of such period.

"Public Equity Offering" means an underwritten primary public offering of common stock of the Company pursuant to an effective registration statement under the Securities Act.

"Receivables and Related Assets" means accounts receivable, instruments, chattel paper, obligations, general intangibles and other similar assets, including interest in merchandise or goods, the sale or lease of which give rise to the foregoing, related contractual rights, guarantees, insurance proceeds, collections, other related assets and proceeds of all the foregoing.

"Receivables Program" means with respect to any Person, any accounts receivable securitization program pursuant to which such Person pledges, sells or otherwise transfers or encumbers its accounts receivable, including a trust, limited liability company, special purpose entity or other similar entity.



"Receivables Subsidiary" means a Wholly Owned Subsidiary (i) created for the purpose of financing receivables created in the ordinary course of business of the Company and its Subsidiaries and (ii) the sole assets of which consist of Receivables and Related Assets of the Company and its Subsidiaries and related Permitted Investments.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other

Indebtedness in exchange or replacement for, such indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company, FFBV or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with the applicable Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced; and

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced;

provided further, however, that Refinancing Indebtedness shall not include (A) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or FFBV or (B) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Registration Rights Agreements" means the Dollar Notes Registration Rights Agreement in respect of the Dollar Notes dated August 3, 2000, among the Company, the Dollar Notes Guarantors, Credit Suisse First Boston Corporation, Bank of America Securities LLC, ABN AMRO Incorporated and Banc One Capital Markets, Inc. and the Euro Notes Registration Rights Agreement in respect of the Euro Notes dated August 3, 2000 among FFBV, the Euro Notes Guarantors, Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO Bank N.V. and First Chicago Limited.

"Related Business" means any business in which the Company was engaged on the Issue Date and any business related, ancillary or complementary to any business of the Company in which the Company was engaged on the Issue Date or any industrial manufacturing or related services business.

"Representative" means with respect to a Person any trustee, agent or representative (if any) for an issue of Senior Indebtedness of such Person.

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and dividends or distributions payable solely to the Company or a Restricted Subsidiary, and other than pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));



(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of such Person (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due

within one year of the date of such purchase, repurchase or other acquisition); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

In determining the amount of any Restricted Payment made in property other than cash, such amount shall be the fair market value of such property at the time of such Restricted Payment, as determined in good faith by the Board of Directors.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Revolving Credit Facility" means the revolving credit facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances, in whole or in part, any such revolving credit facility.

"Sale/Leaseback Transaction" means an arrangement relating to property owned by the Company or a Restricted Subsidiary on the Issue Date or thereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Company secured by a Lien.

"Senior Indebtedness" means with respect to any Person:

(1) Bank Indebtedness of or guaranteed by such Person, whether outstanding on the Issue Date or thereafter Incurred;

(2) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(3) accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to such Person whether or not a claim for post-filing interest is allowed or allowable in such proceeding) in respect of (A) such Bank Indebtedness, (B) indebtedness of such Person for money borrowed and (C) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable

unless, in the case of clauses (1) and (2), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the Notes; provided, however, that Senior Indebtedness shall not include:

(1) any obligation of such Person to any Subsidiary;

(2) any liability for Federal, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);



(4) any Indebtedness of such Person (and any accrued and unpaid interest in respect thereof) which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or

(5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of the applicable Indenture.

"Senior Subordinated Indebtedness" means, with respect to a Person, the Dollar Notes (in the case of the Company), the Euro Notes (in the case of FFBV), a Guaranty (in the case of a Guarantor) and any other Indebtedness of such Person that specifically provides that such Indebtedness is to rank pari passu with the Dollar Notes, the Euro Notes or such Guaranty, as the case may be, in

right of payment and is not subordinated by its terms in right of payment to any Indebtedness or other obligation of such Person which is not Senior Indebtedness of such Person.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Dollar Notes (in the case of the Company), the Euro Notes (in the case of FFBV) or a Guaranty of such Person, as the case may be, pursuant to a written agreement to that effect.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by:

(1) such Person;

(2) such Person and one or more Subsidiaries of such Person; or

(3) one or more Subsidiaries of such Person.

"Temporary Cash Investments" means any of the following:

(1) any investment in direct obligations of the United States of America, European Government Obligations or direct obligations of any other European Union member state in which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof or obligations guaranteed by the United States of America or any other European Union member state in which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $50,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker-dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;



(4) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's Investors Service, Inc. or "A-2" (or higher) according to Standard and Poor's Ratings Group; and

(5) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A"

by Standard & Poor's Ratings Group or "A" by Moody's Investors Service, Inc.

"Term Loan Facility" means the term loan facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances in whole or in part any such term loan facility.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either (A) the Subsidiary to be so designated has total assets of $1,000 or less or (B) if such Subsidiary has assets greater than $1,000, such designation would be permitted under the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Restricted Payments".

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (A) the Company could Incur $1.00 of additional Indebtedness under paragraph (a) of the covenant described under "-- Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness" and (B) no Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Dollar Equivalent" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

Except as described under "Certain Covenants -- Covenants Applicable to the Dollar Notes and the Euro Notes -- Limitation on Indebtedness", whenever it is necessary to determine whether the Company or FFBV has complied with any covenant in the Indentures or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially incurred in such currency.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.



"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or one or more Wholly Owned Subsidiaries.

## CERTAIN TAX CONSIDERATIONS

### UNITED STATES

The following summary describes certain United States federal income tax consequences of the exchange offer and the acquisition, ownership and disposition of the notes by a United States Holder (as defined below) and the notes by a Non-United States Holder (as defined below), subject to the limitations stated herein. The summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions as of the date hereof, all of which may be repealed, revoked or modified so as to result in federal income tax consequences different from those described below. Such changes could be applied retroactively in a manner that could adversely affect holders of the notes. It is therefore possible that the consequences of the acquisition, ownership and disposition of the notes may differ from the treatment described below.

The tax treatment of a holder of the notes may vary depending upon the particular situation of the holder. This summary is limited to investors who will hold the notes as capital assets within the meaning of section 1221 of the Code and does not deal with holders that may be subject to special tax rules (including, but not limited to, insurance companies, tax-exempt organizations, financial institutions, dealers in securities or currencies, holders whose functional currency is not the U.S. dollar or holders who will hold the notes as a hedge against currency risks or as part of a straddle, synthetic security, conversion transaction or other integrated investment comprised of the notes and one or more other investments).

This summary is for general information only and does not address all aspects of federal income taxation that may be relevant to holders of the notes in light of their particular circumstances, and it does not address any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Prospective holders are urged to consult their own tax advisors as to the particular tax consequences to them of acquiring, holding or disposing of the notes.

As used herein, a "United States Holder" means a beneficial owner of a note that is or which is (i) an individual that is a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (1) a U.S. court is able to exercise primary supervision over the administration of the trust and (2) one or more U.S. persons have the authority to control all substantial decisions of the trust. A "Non-United States Holder" is a holder that is not a United States Holder.

### EXCHANGE OFFER

The exchange of notes for new notes pursuant to the exchange offer will not be a taxable event for the holders of the notes, and a holder will have the same tax basis and holding period in the exchange notes as the outstanding notes.

### UNITED STATES HOLDERS OF NOTES

Interest. Interest on the notes generally will be taxable to a United States Holder as ordinary income at the time accrued or received, in accordance with such United States Holder's method of accounting for U.S. federal income tax purposes.

In the case of a euro note, the amount of interest required to be included in income by a United States Holder will include the amount of additional amounts and taxes, if any, withheld by Flowserve Finance on payments made on the euro note. Thus, in the event of such withholding, a United States Holder would be required to report gross income in an amount greater than the cash it receives in respect of payments on its euro note. However, a United States Holder could be eligible, subject to certain limitations, to claim such withholding taxes as a credit or deduction for purposes of computing the amount of its U.S. federal income tax liability (notwithstanding that the payment of such taxes will be made by

Flowserve Finance). Interest income on the euro notes will constitute foreign source income and generally will be considered "passive" income (or "high withholding tax interest" if the applicable withholding tax is imposed at a rate of 5% or more) or "financial services" income for U.S. foreign tax credit purposes. The rules relating to foreign tax credits and the timing thereof are extremely complex and United States Holders should consult with their own tax advisors with regard to the availability of a foreign tax credit and the application of the foreign tax credit limitations to their particular situations.

A cash basis United States Holder receiving an interest payment in euros will be required to include in income the U.S. dollar value of such payment (determined using the spot rate in effect on the date such payment is received) regardless of whether such payment is subsequently converted into U.S. dollars. No exchange gain or loss will be recognized by such holder if the euros are converted to U.S. dollars on the date received. The U.S. federal income tax consequences of the conversion of euro into U.S. dollars is described below. See "-- Transaction in Euros."

An accrual basis United States Holder will be required to include in income the U.S. dollar value of the amount of interest income that has accrued on a euro note in a taxable year, determined by translating such income at the average rate of exchange for the relevant interest accrual period or, with respect to an interest accrual period that spans two taxable years, at the average rate for the portion of such interest accrual period within the taxable year. The average rate of exchange for an interest accrual period (or portion thereof) is the simple average of the exchange rates for each business day of such period (or such other average that is reasonably derived and consistently applied). An accrual basis United States holder may elect to translate interest income on a euro note using the spot rate in effect on the last day of an interest accrual period (or the last day of the taxable year for the portion of such period within the taxable year). In addition, a holder may elect to use the spot rate in effect on the date of receipt (or payment) for such purpose if such date is within five business days of the last date of an interest accrual period. The election must be made in a statement filed with the taxpayer's return and is applicable to all debt instruments for such year and thereafter unless changed with the consent of the IRS.

Upon receipt of an interest payment on a euro note, an accrual basis United States Holder will recognize ordinary gain or loss with respect to accrued interest income in an amount equal to the difference between the U.S. dollar value of the payment received (determined using the spot rate in effect on the date such payment is received) in respect of such interest accrual period and the U.S. dollar value of the interest income that has accrued during such interest accrual period (as determined in the preceding paragraph). Any such gain or loss will be treated as ordinary income or loss but generally will not be treated as interest income or expense, except to the extent provided by future regulations or administrative pronouncements of the IRS. The U.S. federal income tax consequences of the conversion of euro into U.S. dollars is described below. See "-- Transactions in Euros."

Market Discount and Premium. If a United States Holder purchases a note for an amount that is less than its principal amount, the amount of the difference will be treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than a specified de minimis amount.

Unless a United States Holder elects to accrue market discount as described below, such United States Holder will be required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain and (ii) the market discount that has not previously been included in income and is treated as having accrued on such note at the time of such payment or disposition. Market discount will be considered to accrue on a straight-line basis during the period from the date of acquisition to the maturity date of the note, unless the United States Holder elects to accrue such discount on a constant-yield basis.

A United States Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a note until the maturity of the note or its earlier disposition. A United States Holder may elect to include market discount in income currently as it accrues (on either a straight-line or a constant-yield basis), in which case such United

States Holder will not be subject to the rules described above regarding the treatment of gain as ordinary income upon the disposition of the note and upon the receipt of certain cash payments and regarding the deferral of interest deductions.

In the case of a euro note, any accrued market discount not taken into income shall be translated into U.S. dollars at the spot rate on the date the United States Holder disposes of the euro note (or receives a partial principal payment to which the accrued market discount relates). No part of such accrued market discount is treated as exchange gain or loss. With respect to a United States Holder of a euro note that elects to include market discount into income currently as it accrues, such accrued market discount shall be translated in U.S. dollars at the average exchange rate for the accrual period in a manner described above in "-- Interest."

If a United States Holder purchases a note for an amount that is greater than the sum of all amounts payable on the note after its acquisition (other than payments of stated interest), such United States Holder will be considered to have purchased such note at a "premium" equal in amount to such excess, and may elect (in accordance with applicable Code provisions) to amortize such premium, on a constant yield method over the remaining term of the note (subject to special rules concerning early call provisions). If an election to amortize the premium is not made, the premium will decrease the gain or increase the loss otherwise recognized on a taxable disposition of the note. In the case of a euro note, the amount of amortizable premium is determined using the exchange conventions applicable to payments of interest. See "-- Interest" above.

The election to include market discount in income currently or to amortize premium, once made, applies to all debt obligations held or subsequently acquired by the electing United States Holder on or after the first day of the first taxable year to which the election applied and may not be revoked without the consent of the IRS.

Dispositions. Upon the sale, exchange, redemption, retirement or other disposition of a note, a United States Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other disposition and such holder's adjusted tax basis in the note (generally equal to the cost of such note to such holder and increased by any market discount previously includible in income by the United States Holder and decreased by amortized premium with respect to the note).

For these purposes, the amount realized on the sale, exchange, redemption, retirement or other disposition of a note does not include any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income unless previously taken into account. Except with respect to gains or losses attributable to changes in currency exchange rates, as described below, and except for any market discount, such gain or loss will be capital gain or loss. Such gain or loss will generally be treated as U.S. source gain or loss.

In the case of a euro note, a United States Holder's tax basis in such note generally will be the U.S. dollar value of the purchase price of such euro note on the date of a purchase (determined by translating the purchase price into U.S. dollars at the spot rate in effect on the date of purchase, adjusted by market discount or premium as described above). Upon the sale, exchange, redemption, retirement or other disposition of a euro note, a United States holder generally will recognize gain or loss equal to the difference between the amount realized on such sale, exchange, redemption, retirement or other disposition (or, if it is realized in other than U.S. dollars, the U.S. dollar value of the amount using the spot rate in effect on the date of such sale, exchange, redemption, retirement or other disposition) and the holder's tax basis in such euro note.

Gain or loss recognized by a United States Holder on the sale, exchange, redemption, retirement or other disposition of a euro note that is attributable to changes in the rate of exchange between the U.S. dollar and the euro will be treated as ordinary income or loss and generally will not be treated as interest income or expense except to the extent provided by future regulations or administrative pronouncements of the IRS. Such foreign currency gain or loss is recognized on the sale, exchange,

redemption, retirement or other disposition of a euro note only to the extent of total gain or loss recognized on such sale, exchange, redemption, retirement or other disposition. Such foreign currency gain or loss will be treated as U.S. source gain or loss.

As a result of certain limitations on the U.S. foreign tax credit under the Code, a U.S. Holder may not be able to claim a U.S. foreign tax credit for Netherlands withholding taxes, if any, imposed on the proceeds received upon the sale, exchange, redemption, retirement or other disposition of a euro note by Flowserve Finance. Prospective holders should consult their own tax advisors concerning the application of the U.S. foreign tax credit rules to their particular situations.

For certain non-corporate United States Holders (including individuals), the rate of taxation of capital gains will depend upon (i) the holder's holding period in the capital asset (with a preferential rate available for capital assets held for more than one year) and (ii) the holder's marginal tax rate for ordinary income. The deductibility of capital losses is subject to limitations.

Transactions in Euros. Euro received as interest on, or on the sale, exchange, redemption, retirement or other disposition of, a euro note will have a tax basis equal to their U.S. dollar value at the time such interest is received or at the time payment is received in consideration of such sale exchange, redemption, retirement or other disposition. The amount of gain or loss recognized on a sale or other disposition of such euro will be equal to the difference between (i) the amount of U.S. dollars, or the fair market value in U.S. dollars of the other currency or property received in such sale or other disposition and (ii) the tax basis of such euro.

A United States Holder that purchases a euro note with previously owned euros would recognize gain or loss in an amount equal to the difference, if any, between such holder's tax basis in such euros and the U.S. dollar fair market value of such euro note on the date of purchase. Generally, any such gain or loss will be ordinary income or loss and will not be treated as interest income or expense, except to the extent provided by future regulations or administrative pronouncements of the IRS. However, a United States Holder that converts U.S. dollars to euro and immediately uses such euro to purchase a euro note ordinarily would not recognize any exchange gain or loss in connection with such conversion or purchase.

NON-UNITED STATES HOLDERS OF NOTES

Payments on Dollar Notes. Subject to the discussion below concerning backup withholding, no U.S. federal withholding tax will be imposed with respect to the payment of principal, premium, if any, or interest on a dollar note owned by a Non-United States Holder (the "Portfolio Interest Exception"), provided (i) that such Non-United States Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Flowserve entitled to vote within the meaning of section 871(h)(3) of the Code and the U.S. Treasury regulations thereunder, (ii) such Non-United States Holder is not a controlled foreign corporation that is related, directly or indirectly, to Flowserve through stock ownership, (iii) such Non-United States Holder is not a bank whose receipt of interest on a dollar note is described in section 881(c)(3)(A) of the Code and (iv) such Non-United States Holder satisfies the statement requirement (described generally below) set forth in section 871(h) and section 881(c) of the Code and the U.S. Treasury regulations thereunder.

To satisfy the requirement referred to in (iv) above, the beneficial owner of such dollar note, or a financial institution holding the dollar note on behalf of such owner, must provide, in accordance with specified procedures, a paying agent of our company with a statement to the effect that the beneficial owner is not a United States Holder. Pursuant to U.S. Treasury regulations, these requirements will be met if (1) the beneficial owner provides his name and address, and certifies, under penalties of perjury, that he is not a United States Holder (which certification may be made on an Internal Revenue Service (the "IRS") Form W-8 or W-8BEN) or (2) a financial institution holding the dollar note on behalf of the beneficial owner certifies, under penalties of perjury, that such statement has been received by it and furnishes a paying agent with a copy thereof.

If a Non-United States Holder cannot satisfy the requirements of the Portfolio Interest Exception described in (a) above, payments on a dollar note made to such Non-United States Holder will be subject to a 30% withholding tax unless the beneficial owner of the dollar note provides our company or our paying agent, as the case may be, with a properly executed (1) IRS Form 1001 or W-8BEN claiming an exemption from or reduction of withholding under the benefit of a tax treaty or (2) IRS Form 4224 or W-8ECI stating that interest paid on the dollar note is not subject to withholding tax because it is effectively connected with the beneficial owner's conduct of a trade or business in the United States.

Payments on Euro Notes. Subject to the discussion below concerning backup withholding, no U.S. federal withholding tax will be imposed with respect to the payment of principal, premium, if any, or interest on a euro note owed by a Non-United States Holder.

U.S. Trade or Business Income. If a Non-United States Holder is engaged in a trade or business in the United States and payments on a note are effectively connected with the conduct of such trade or business, and, in the case of a euro note, certain other conditions are satisfied, the Non-United States Holder, although exempt from U.S. federal withholding tax as discussed above, will be subject to U.S. federal income tax on such payment on a net income basis in the same manner as if it were a United States Holder. In addition, if such Non-United States Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, subject to adjustments.

Disposition. Any gain realized upon the sale, exchange, redemption, retirement or other disposition of a note generally will not be subject to United States federal income tax, except that gain realized upon the disposition of a dollar note will be subject to United States federal income tax if (i) such gain or income is effectively connected with a trade or business in the United States of the Non-United States Holder or (ii) in the case of a Non-United States Holder who is an individual, (y) such individual is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement or other disposition, and certain other conditions are met or (z) such individual is a former citizen or former long-term resident of the United States meeting certain qualifications.

Estate Tax. Notes beneficially owned by an individual who at the time of death is a Non-United States Holder will not be subject to federal estate tax as a result of such individual's death, provided that such individual does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Flowserve or Flowserve Finance entitled to vote within the meaning of section 871(h)(3) of the Code and provided that the interest payments with respect to such dollar note would not have been, if received at the time of such individual's death, effectively connected with the conduct of a U.S. trade or business by such individual.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Interest on a note and proceeds from a sale, exchange, redemption, retirement or other disposition may be reported to the IRS and a 31% backup withholding tax may apply to such amounts unless the holder (i) is a corporation, (ii) provides an accurate taxpayer identification number (in the case of a United States Holder) or a properly executed IRS Form W-8 (in the case of a Non-United States Holder), or (iii) otherwise establishes a basis for exemption. The amount of any backup withholding tax will be allowed as a credit against the holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS. After December 31, 2000, the requirements and procedures for establishing an exemption from information reporting and backup withholding will change. Prospective holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

THE NETHERLANDS

This section contains a brief summary of a number of key Netherlands taxation principles that are or could be relevant to the holders of the notes. It does not address all aspects of Netherlands taxation that may be relevant to holders of the notes in light of their particular circumstances. Prospective holders are urged to consult their tax advisors as to the particular tax consequences to them of acquiring, holding or disposing of the notes.

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This summary is based on current Netherlands law as of the date of this prospectus, as well as on the double taxation treaties currently in force. Tax regulations may change. Holders should be aware that recently the Netherlands legislative authorities have adopted a proposal for an extensive change of Netherlands personal income tax (and changes to corresponding elements in other tax laws). The new personal income tax act will enter into force on January 1, 2001.

Flowserve Finance has been advised that under existing Netherlands tax law the following Netherlands tax treatment will apply to the euro notes, provided:

(1) they do not carry interest or any other payment contingent on the profits of, or on the distribution of profits by Flowserve Finance;

(2) they will not be redeemable in exchange for, convertible into or linked to shares or other equity instruments issued or to be issued by Flowserve Finance; and

(3) they do not have a maturity in excess of 30 years.

WITHHOLDING TAX

All payments under the euro notes can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

TAXES ON INCOME AND CAPITAL GAINS

A holder of a euro note who derives income from a euro note or who realizes a gain on the disposal or deemed disposal or redemption of a euro note will not be subject to Netherlands taxation on income or capital gains, provided that:

(1) such holder is neither resident nor deemed to be resident in The Netherlands;

(2) such holder does not have an enterprise or an interest in an enterprise which is, in whole or in part, carried on through a permanent establishment (or deemed permanent establishment) or a permanent representative (or deemed permanent representative) in the Netherlands and to which enterprise or part of an enterprise the euro notes are attributable;

(3) such holder does not have a substantial interest or a deemed substantial interest in Flowserve Finance or, if the holder does have such an interest, it forms part of the assets of an enterprise; and

(4) such holder does not carry out and has not carried out employment activities in the Netherlands nor carries out employment activities outside the Netherlands the remuneration for which is subject to Netherlands wage withholding tax and with which employment activities the holding of the euro notes is connected.

NET WEALTH TAX

Netherlands net wealth tax will not be levied on a holder of a euro note unless such holder is an individual and:

(1) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(2) such euro note is attributable to an enterprise or part thereof which is carried on through a permanent establishment (or deemed permanent establishment) or a permanent representative (or deemed permanent representative) in The Netherlands.

GIFT, ESTATE OR INHERITANCE TAXES

Netherlands gift, estate or inheritance taxes will not be levied upon the acquisition of a euro note by way of gift by, or on the death of, a holder of a euro note unless:

(1) the holder is, or is deemed to be, resident of The Netherlands for the purpose of the relevant provisions; or

(2) the holder at the time of the gift has or at the time of his death had an enterprise that is or was, in whole or in part, carried on through a permanent establishment (or deemed permanent establishment) and to which enterprise or part of an enterprise the euro notes are or were attributable; or

(3) in the case of a gift of a euro note by any individual who, at the date of the gift was not resident or deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

CAPITAL TAX

There is no Netherlands capital tax payable in the Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgement in the courts of the Netherlands) of the euro notes or the performance of FFBV's obligations under the euro notes, other than capital tax that may be due by FFBV on capital contributions made or deemed to be made to FFBV under the guarantee of the dollar notes.

OTHER TAXES AND DUTIES

There is no Netherlands registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgement in the courts of The Netherlands) of the euro notes or the performance of Flowserve Finance's obligation under the euro notes.

VAT

There is no Netherlands value added tax payable in consideration for the issue of the euro notes, in respect of the payment of interest or principal under the euro notes, or the transfer of a euro note.

A holder of a euro note will not become resident, or deemed to be resident, in The Netherlands by reason only of the holding of a euro note or the execution, delivery or enforcement of the euro notes or the performance by Flowserve Finance of its obligation under the euro notes.

PROPOSED NETHERLANDS TAX LEGISLATION

Recently, the Netherlands legislative authorities have adopted a proposal for an extensive change of the Netherlands personal income tax (and changes to corresponding elements in other tax laws). This "Personal Income Tax Act 2001" shall become effective on January 1, 2001. The Personal Income Tax Act 2001 will substantially change the income tax position of a holder of euro notes who is resident or deemed to be resident in The Netherlands. Under the new act, tax at a rate of 30% will be due on a fictitious yield of 4% of the average market value of the euro notes at the beginning and the end of each year. The Netherlands income tax position for individuals holding the euro notes, who are not resident or deemed to be resident in The Netherlands, will in principle remain unaltered. Under the new act, the net wealth tax will be abolished.

PROPOSED DIRECTIVE APPLICABLE TO INTEREST PAYMENTS

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige its member states to adopt either a "withholding tax system" or an "information reporting system" in relation to payments of interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. Once sufficient reassurances with regard to the application of the same measures in dependent or associated territories and of equivalent measures in the United States and key third countries have been obtained, the Council of Ministers of the European Union will decide on the adoption and implementation of the proposal no later than December 31, 2002.

The "withholding tax system" would require a paying agent established in a member state to withhold tax at a minimum rate of 20% from any interest, discount or premium paid to an individual resident in another member state, unless such an individual presents a certificate obtained from the tax authorities of the member state in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a member state to supply to other member states details of any payment of interest, discount or premium made by the paying agents within its jurisdiction to an individual resident in another member state. For these purposes, the term "paying agent" is widely defined and includes an agent who is responsible for the payment of interest, discounts or premiums for the immediate benefit of an individual beneficially entitled thereto.

THE INCOME TAX SUMMARY SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. PROSPECTIVE HOLDERS OF THE NOTES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE EFFECTS OF CHANGES IN SUCH LAWS.



## PLAN OF DISTRIBUTION

Based on positions taken by the staff of the SEC set forth in no-action letters issued to Exxon Capital Holdings Corp. and Morgan Stanley & Co. Inc., among others, we believe that exchange notes issued pursuant to the Exchange Offer in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by holders thereof under U.S. federal securities laws (other than any holder which is (i) an "affiliate" of ours within the meaning of Rule 405 under the Securities Act, (ii) a broker-dealer who acquired exchange the notes directly from us, or (iii) broker-dealers who acquired exchange notes as a result of market-making or other trading activities) without compliance with the registration and prospectus delivery provisions for the Securities Act provided that such exchange notes are acquired in the ordinary course of such holders' business, and such holders are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of such exchange notes, provided that broker-dealers ("Participating Broker-Dealers") receiving exchange notes in the Exchange Offer will be subject to a prospectus delivery requirement with respect to resales of such exchange notes. To date, the staff of the SEC has taken the position that Participating Broker-Dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of securities such as the exchange pursuant to the Exchange Offer (other than a resale of an unsold allotment from the sale of the outstanding notes to the Initial Purchasers thereof) with the prospectus contained in the Registration Statement. Pursuant to the Registration Rights Agreements, we have agreed to permit Participating Broker-Dealers and other persons, if any, subject to similar prospectus delivery requirements to use this prospectus in connection with the resale of such exchange notes. We have agreed that, for a period of 180 days after the Exchange Offer has been consummated, we will make this prospectus, and any amendment or supplement to this prospectus, available to any broker-dealer that requests such documents in the letter of transmittal.

Each holder of outstanding notes who wishes to exchange its outstanding notes for exchange notes in the Exchange Offer will be required to make certain representations to us as set forth in "The Exchange Offer". In addition, each holder who is a broker-dealer and who receives Exchange Notes for its own

account in exchange for outstanding notes that were acquired by it as a result of market-making activities or other trading activities, will be required to acknowledge that it will deliver a prospectus in connection with any resale by it of such exchange notes.

Holders who tender outstanding notes in the Exchange Offer with the intention to participate in a distribution of the exchange notes may not rely upon the Exxon Capital Holdings Corp., the Morgan Stanley & Co. Inc. or similar no-action letters.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such exchange notes. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

We have agreed to pay all expenses incidental to the Exchange Offer other than commissions and concessions of any brokers or dealers and will indemnify holders of the outstanding notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act, as set forth in the Registration Rights Agreements.

Exchange notes may only be offered in The Netherlands or elsewhere to persons who trade or invest in securities in the conduct of their profession or trade within the meaning of the Securities Transactions Supervision Act 1995 (Wet Toezicht Effectenverkeer 1995) and its implementing regulations (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension



funds, other institutional investors, and commercial enterprises which as an ancillary activity regularly invest in securities).

## LEGAL MATTERS

Certain legal matters in connection with the notes will be passed upon for Flowserve by Shearman & Sterling, New York, New York. Certain Dutch company law matters relating to Flowserve Finance will be passed upon by De Brauw Blackstone Westbroek N.V., Amsterdam, The Netherlands.

## EXPERTS

The consolidated financial statements of Flowserve Corporation at December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, appearing in this Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Innovative Valve Technologies as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been so included in reliance on the report of Arthur Andersen LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Ingersoll-Dresser Pump Company as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at:

- the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington DC 20549;

- the public reference facilities at the SEC's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 or 500 West Madison Street, Suite 1400, Chicago, Illinois 60661.

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's Website at http://www.sec.gov. Reports and other information concerning us can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.





The SEC allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring you to other documents we file with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information superseded by information in this prospectus or in any subsequently filed document that is incorporated by reference in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about our company and our finances.

| SEC FILING (FILE NO. 1-13179) | PERIOD/DATE |
|---|---|
| Annual Report on Form 10-K..... | Year ended December 31, 1999 |
| Proxy Statement..... | Dated March 16, 2000 |
| Quarterly Report on Form 10-Q..... | Quarter ended March 31, 2000 and June 30, 2000 |
| Current Reports on Form 8-K..... | July 20, 2000, August 2, 2000, August 8, 2000, August 23, 2000 and August 30, 2000 |

## GENERAL LISTING INFORMATION

### LISTING

The outstanding euro notes are listed on the Luxembourg Stock Exchange. The exchange euro notes are expected to be listed on the Luxembourg Stock Exchange upon the expiration of the Exchange Offer. The Articles of Association of Flowserve Finance and the legal notice relating to the issue of the exchange euro notes will be deposited prior to the listing with the Chief Registrar of the District Court in Luxembourg (Greffier en Chef du Tribunal d' Arrondissement a Luxembourg), where such documents will be available for inspection and where copies thereof can be obtained upon request. As long as the exchange euro notes are listed on the Luxembourg Stock Exchange, an agent for making payments on, and transfer of, exchange euro notes will be maintained in Luxembourg. In connection with the Exchange Offer: (a) notice will be given to the Luxembourg Stock Exchange and published in a Luxembourg newspaper announcing the beginning of the registered exchange offer and, following the completion of such offer, the results of such offer; (b) a Luxembourg exchange agent, through which all relevant documents with respect to the registered exchange offer will be made available, will be appointed and (c) the Luxembourg exchange agent will be able to perform all agency functions to be performed by any exchange agent, including providing a letter of transmittal and other relevant documents to holders, and accepting such documents on behalf of us. The exchange euro notes will be accepted for clearance through Euroclear and Clearstream and notice will be given to the Luxembourg Stock Exchange and published in a Luxembourg newspaper announcing the relevant Common Codes and International Securities Identification Numbers. We have appointed Banque Internationale a Luxembourg S.A. as our listing, paying and transfer agent in Luxembourg and The Bank of New York as our paying and transfer agent in New York. We reserve the right to vary such appointment. The paying agent in Luxembourg will act as intermediary between the holders and us.

### AUTHORIZED CAPITAL

The authorized capital of Flowserve Finance is E100,000. The issued and outstanding share capital of Flowserve Finance is E20,000, all of which is held by Flowserve International, Inc.

CONSENTS

We have obtained all necessary consents, approvals and authorizations in connection with the issue of the exchange euro notes. The issue of the exchange euro notes will be authorized by resolutions of the Board of Managing Directors of Flowserve Finance.





NO MATERIAL CHANGE

Except as disclosed in this prospectus, there has been no material change in the financial position of Flowserve and its subsidiaries since June 30, 2000.

LITIGATION

Neither Flowserve nor any of its subsidiaries or affiliates is involved in any litigation or arbitration proceedings which relate to claims or amounts which are material in the context of the issue of the euro notes that may have, or have had during the 12 months preceding the date of this prospectus, a material adverse effect on the financial position of Flowserve, nor, so far as any of them is aware, is any such proceeding pending or threatened.

RESPONSIBILITY STATEMENT

Having made all reasonable enquiries, Flowserve Finance confirms that, to the best of its knowledge and belief, the information contained in this prospectus with regard to Flowserve Finance and the euro notes is true and accurate in all material respects, that this prospectus is not misleading and that there are no other facts the omission of which would in the context of the issue of the euro notes make any statement herein, whether of fact or opinion, misleading in any material respect. Flowserve Finance accepts responsibility accordingly.

PRESCRIPTION

Under New York's statute of limitations, any legal action upon the euro notes in respect of principal or interest must be commenced within six years after the payment thereof is due. Thereafter, such principal or interest will become generally unenforceable.

MEETINGS

The indenture governing the euro notes does not specifically require regular meetings of holders of the euro notes. However, under Section 13.07 of the indenture governing the euro notes, the trustee, the paying agent and the registrar may make reasonable rules for a meeting of holders of the euro notes.

AUDITORS

The consolidated accounts of Flowserve as of December 31, 1999 and 1998 and for the three years in the period ended December 31, 1999 have been prepared in accordance with U.S. GAAP and have been audited by Ernst & Young LLP in accordance with United States generally accepted auditing standards. The unaudited consolidated interim accounts for the six months ended June 30, 2000 and 1999 were prepared in accordance with U.S. GAAP.

DOCUMENTS

Copies of the following documents may be inspected at the specified office of the paying and transfer agent in Luxembourg.

- Articles of Association of Flowserve Finance;

- The purchase agreement and registration rights agreement relating to the euro notes;

- The indenture relating to the euro notes (which include the forms of the

respective note certificates); and

- This prospectus and registered exchange offer prospectus (if any).

Flowserve Finance intends to publish Dutch statutory accounts and it will also publish its financial statements in accordance with U.S. GAAP. Copies of such statutory accounts and financial statements will



be available free of charge at the specified office of the paying and transfer agent in Luxembourg for so long as the euro notes are listed on the Luxembourg Stock Exchange.

CLEARING SYSTEMS

The euro notes have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. Relevant trading information is set forth below.

| | ISIN | COMMON CODE |
|---|---|---|
| Euro notes due 2010..... | | |

NOTICES

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to holders of the euro notes at their registered addresses as recorded in the register; and (ii) so long as the euro notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the euro notes in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such publication is not practicable, in one other leading English language daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions.



INDEX TO FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Flowserve Corporation

We have audited the accompanying consolidated balance sheets of Flowserve Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly,

in all material respects, the consolidated financial position of Flowserve Corporation and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

In 1998, as discussed in Note 6 to the consolidated financial statements, the Company changed its method of accounting for costing its inventory, and as discussed in Note 8, changed its method of accounting for certain defined compensation arrangements.

Ernst & Young LLP

Dallas, Texas
February 10, 2000 except for Note 16,
as to which date is July 14, 2000 and
Note 15, as to which date
is August 9, 2000



FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| | (AMOUNTS IN THOUSANDS) | |
| Current assets: | | |
| Cash and cash equivalents | $ 30,463 | $ 24,928 |
| Accounts receivable, net | 213,625 | 234,191 |
| Inventories | 168,356 | 199,286 |
| Prepaids and other current assets | 41,344 | 28,885 |
| Total current assets | 453,788 | 487,290 |
| Property, plant and equipment, net | 209,976 | 209,032 |
| Intangible assets, net | 96,435 | 99,875 |
| Other assets | 77,952 | 74,000 |
| Total assets | $838,151 | $870,197 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 72,103 | $ 76,745 |
| Notes payable | 734 | 3,488 |
| Income taxes | 7,878 | 17,472 |
| Accrued liabilities | 111,820 | 107,028 |
| Long-term debt due within one year | 3,125 | 14,393 |
| Total current liabilities | 195,660 | 219,126 |
| Long-term debt due after one year | 198,010 | 186,292 |
| Post-retirement benefits and deferred items | 136,207 | 120,015 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Serial preferred stock, $1.00 par value, no shares issued | -- | -- |
| Common shares, $1.25 par value | 51,856 | 51,856 |
| Shares authorized -- 120,000 | | |
| Shares issued and outstanding -- 41,484 | | |
| Capital in excess of par value | 67,963 | 70,698 |
| Retained earnings | 344,254 | 353,249 |
| | 464,073 | 475,803 |
| Treasury stock, at cost -- 4,071 and 3,817 shares | (93,448) | (90,404) |
| Accumulated other comprehensive income | (62,351) | (40,635) |
| Total shareholders' equity | 308,274 | 344,764 |

| | | |
|---|---|---|
| Total liabilities and shareholders' equity | $838,151 | $870,197 |

See accompanying notes to consolidated financial statements.



FLOWSERVE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| Sales | $1,061,272 | $1,083,086 | $1,152,196 |
| Cost of sales | 697,928 | 667,753 | 703,319 |
| Gross profit | 363,344 | 415,333 | 448,877 |
| Selling and administrative expense | 275,884 | 265,556 | 285,890 |
| Research, engineering and development expense | 25,645 | 26,372 | 26,893 |
| Merger transaction and restructuring expense | 15,860 | -- | 44,531 |
| Merger integration expense | 14,207 | 38,326 | 6,982 |
| Operating income | 31,748 | 85,079 | 84,581 |
| Interest expense | 15,504 | 13,175 | 13,275 |
| Other income, net | (2,001) | (1,253) | (7,107) |
| Gain on sale of subsidiary | -- | -- | (11,376) |
| Earnings before income taxes | 18,245 | 73,157 | 89,789 |
| Provision for income taxes | 6,068 | 25,502 | 38,223 |
| Earnings before cumulative effect of change in accounting principle | 12,177 | 47,655 | 51,566 |
| Cumulative effect of change in accounting principle | -- | (1,220) | -- |
| Net earnings | $ 12,177 | $ 48,875 | $ 51,566 |
| Earnings per share (basic and diluted) | | | |
| Before cumulative effect of change in accounting principle | $ 0.32 | $ 1.20 | $ 1.26 |
| Cumulative effect of change in accounting principle | -- | .03 | -- |
| Net earnings per share | $ 0.32 | $ 1.23 | $ 1.26 |
| Average shares outstanding | 37,856 | 39,898 | 40,896 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (AMOUNTS IN THOUSANDS) | | |
| Net earnings | $ 12,177 | $ 48,875 | $ 51,566 |
| Other comprehensive expense: | | | |
| Foreign currency translation adjustments | 20,874 | 9,861 | 24,002 |
| Nonqualified pension plan adjustment | 842 | -- | -- |
| Other comprehensive expense | 21,716 | 9,861 | 24,002 |
| Comprehensive (loss) income | $ (9,539) | $ 39,014 | $ 27,564 |

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | SHARES | AMOUNT | SHARES | AMOUNT |
| | (AMOUNTS IN THOUSANDS) | | | | | |
| COMMON SHARES | | | | | | |
| Beginning balance -- January 1 | 41,484 | $ 51,856 | 41,484 | $ 51,856 | 41,482 | $ 51,854 |
| Stock activity under stock plans | -- | -- | -- | -- | 2 | 2 |
| Ending balance -- December 31 | 41,484 | $ 51,856 | 41,484 | $ 51,856 | 41,484 | $ 51,856 |
| CAPITAL IN EXCESS OF PAR VALUE | | | | | | |
| Beginning balance -- January 1 | | $ 70,698 | | $ 70,655 | | $ 72,434 |
| Stock activity under stock plans | | (2,735) | | 43 | | (1,779) |
| Ending balance -- December 31 | | $ 67,963 | | $ 70,698 | | $ 70,655 |
| RETAINED EARNINGS | | | | | | |
| Beginning balance -- January 1 | | $353,249 | | $326,681 | | $298,563 |
| Stock activity under stock plans | | -- | | -- | | 3 |
| Net earnings | | 12,177 | | 48,875 | | 51,566 |
| Cash dividends declared | | (21,172) | | (22,307) | | (23,451) |
| Ending balance -- December 31 | | $344,254 | | $353,249 | | $326,681 |
| TREASURY STOCK | | | | | | |
| Beginning balance -- January 1 | (3,817) | $(90,404) | (881) | $(23,145) | (1,081) | $(27,455) |
| Stock activity under stock plans | 154 | 3,903 | 184 | 4,782 | 200 | 4,310 |
| Treasury stock repurchases | (315) | (5,250) | (2,841) | (64,508) | -- | -- |
| Rabbi Trust adjustment | (93) | (1,697) | (279) | (7,533) | -- | -- |
| Ending balance -- December 31 | (4,071) | $(93,448) | (3,817) | $(90,404) | (881) | $(23,145) |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | | | | |
| Beginning balance -- January 1 | | $(40,635) | | $(30,774) | | $ (6,772) |
| Foreign currency translation adjustment | | (20,874) | | (9,861) | | (24,002) |
| Nonqualified pension plan adjustment | | (842) | | -- | | -- |
| Ending balance -- December 31 | | $(62,351) | | $(40,635) | | $(30,774) |
| TOTAL SHAREHOLDERS' EQUITY | | | | | | |
| Beginning balance -- January 1 | 37,667 | $344,764 | 40,603 | $395,273 | 40,401 | $388,624 |
| Net changes in shareholders' equity | (254) | (36,490) | (2,936) | (50,509) | 202 | 6,649 |
| Ending balance -- December 31 | 37,413 | $308,274 | 37,667 | $344,764 | 40,603 | $395,273 |

See accompanying notes to consolidated financial statements.



FLOWSERVE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (AMOUNTS IN THOUSANDS) | | |
| CASH FLOWS -- OPERATING ACTIVITIES: | | | |
| Net earnings | $ 12,177 | $ 48,875 | $ 51,566 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 35,045 | 35,110 | 35,277 |
| Amortization | 4,554 | 4,189 | 3,656 |
| Gain on sale of subsidiary, net of income taxes | -- | -- | (7,417) |
| Loss on the sale of fixed assets | 440 | 57 | 33 |
| Cumulative effect of change in accounting principle | -- | (1,220) | -- |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | |
| Accounts receivable | 12,723 | 3,015 | (18,401) |
| Inventories | 28,359 | (11,507) | (9,943) |
| Loss on impairment of facilities and equipment | 2,834 | -- | -- |
| Prepaid expenses | (12,910) | 8,718 | (10,287) |
| Other assets | 436 | (11,066) | (13,232) |
| Accounts payable | (1,919) | 5,654 | 1,574 |
| Accrued liabilities | 6,333 | (25,848) | 48,806 |
| Income taxes | (12,395) | 1,051 | (2,005) |
| Post-retirement benefits and deferred items | 8,072 | (3,709) | 13,195 |
| Net deferred taxes | (1,817) | 1,033 | (1,477) |
| Other | -- | (248) | (1,342) |
| Net cash provided by operating activities | 81,932 | 54,104 | 90,003 |
| CASH FLOWS -- INVESTING ACTIVITIES: | | | |
| Capital expenditures, net of disposals | (40,535) | (38,249) | (39,560) |
| Payments for acquisitions, net of cash acquired | (5,743) | (19,951) | (10,461) |
| Proceeds from sale of subsidiary | -- | -- | 18,793 |
| Other | -- | (427) | 1,777 |
| Net cash flows used by investing activities | (46,278) | (58,627) | (29,451) |
| CASH FLOWS -- FINANCING ACTIVITIES: | | | |
| Net repayments under lines of credit | (13,645) | (2,314) | 576 |
| Payments on long-term debt | (6,370) | (20,212) | (15,760) |
| Proceeds from long-term debt | 18,776 | 76,950 | 929 |
| Repurchase of common stock | (5,250) | (64,508) | -- |
| Proceeds from issuance of common stock | (529) | 4,764 | 2,584 |
| Dividends paid | (21,172) | (22,307) | (26,121) |
| Other | (842) | -- | -- |
| Net cash flows used by financing activities | (29,032) | (27,627) | (37,792) |
| Effect of exchange rate changes | (1,087) | (1,524) | (3,091) |
| Net change in cash and cash equivalents | 5,535 | (33,674) | 19,669 |
| Cash and cash equivalents at beginning of year | 24,928 | 58,602 | 38,933 |
| Cash and cash equivalents at end of year | $ 30,463 | $ 24,928 | $ 58,602 |
| Taxes paid | $ 19,336 | $ 23,579 | $ 27,636 |
| Interest paid | 16,128 | 11,190 | 13,420 |

See accompanying notes to consolidated financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated. Investments in unconsolidated affiliated companies, which represent all nonmajority ownership interests, are carried on the equity basis, which approximates the Company's equity interest in their underlying net book value.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

BASIS OF COMPARISON

Certain amounts in 1998 and 1997 have been reclassified or restated to conform with the 1999 presentation.

BUSINESS COMBINATIONS

Business combinations accounted for under the pooling of interests method of accounting combine the assets, liabilities and shareholders' equity of the acquired entity with the Company's respective accounts at recorded values. Prior-period financial statements have been restated to give effect to the transactions as if they had occurred at the beginning of all periods presented.

Business combinations accounted for under the purchase method of accounting include the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition and any excess of purchase price over fair value of the identifiable assets is recorded as goodwill.

REVENUE RECOGNITION

Revenues and costs are generally recognized as units are shipped. Revenue for certain longer-term contracts is recognized based on the percentage of completion. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities.

SHORT-TERM INVESTMENTS AND CREDIT RISK

The Company places its temporary cash investments with financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. These investments, with an original maturity of three months or less when purchased, are classified cash equivalents. They are highly liquid with principal values not subject to significant risk of change due to interest rate fluctuations. Credit risk is also limited due to the large number of customers in the Company's customer base, the Company's diverse product line and the dispersion of the Company's customers across many geographic regions. As of December 31, 1999, the Company does not believe that it had significant concentrations of credit risk.





ACCOUNTS RECEIVABLE

Accounts receivable are stated net of the allowance for doubtful accounts of $5,705 and $4,533 at December 31, 1999 and 1998, respectively.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT, AND DEPRECIATION

Property, plant and equipment are stated on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets for financial statement purposes and by accelerated methods for income tax purposes. The estimated useful lives of the assets are:

| | |
|---|---|
| Buildings, improvements, furniture and fixtures..... | 5 to 35 years |
| Machinery and equipment..... | 3 to 12 years |
| Capital leases..... | 3 to 25 years |

INTANGIBLES

The excess cost over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over 15 to 40 years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill will be adjusted accordingly. Accumulated amortization was $21,531 and $14,062 as of December 31, 1999 and 1998, respectively.

HEDGING/FORWARD CONTRACTS

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. Gains and losses on forward contracts qualifying as hedges are deferred and included in the measurement of the related foreign currency transaction. Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses related to hedges of anticipated transactions are recognized in income as the transactions occur. The carrying amounts in the Company's financial instruments approximate fair value as defined under Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments." Fair value is estimated by reference to quoted prices by financial institutions. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it expects all counterparties to meet their obligations, given their high credit ratings. As of December 31, 1999, the Company had no significant outstanding hedges or forward contracts with third parties.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign affiliates, other than those located in highly inflationary countries, are translated at current exchange rates, while income and expenses are translated at average rates for the period. For entities in highly inflationary countries, a combination of current and historical rates is used to determine currency gains and losses resulting from financial-statement translation and those resulting from transactions. Translation gains and losses are reported as a component of shareholders'



equity, except for those associated with highly inflationary countries, which are reported directly in the consolidated statements of income.

ACCOUNTING DEVELOPMENTS

In 1999, the Company adopted Financial Accounting Standards Board Statement of Position (SOP) No. 98-1, "Accounting for Costs of Software Developed or Obtained for Internal Use." SOP 98-1 is effective for fiscal periods beginning after December 15, 1998, and establishes guidelines to determine whether software-related costs should be capitalized or expensed. The adoption of this standard did not materially impact Flowserve's reported financial position, results of operation or cash flows.

In 1999, the Financial Accounting Standards Board also issued one Statement of Financial Accounting Standard (SFAS) that was applicable to the Company -- SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000. This standard is not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

EARNINGS PER SHARE

Earnings per share is presented in accordance with SFAS No. 128, "Earnings Per Share." The Company's potentially dilutive common stock equivalents have been immaterial for all periods presented. Accordingly, basic earnings per share is equal to diluted earnings per share and is presented on the same line for income statement presentation.

INCOME TAXES

The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes."

STOCK-BASED COMPENSATION

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and related interpretations in accounting for its employee stock options. Under APB No. 25, no compensation expense is recorded if the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant. Accordingly, the Company has no compensation expense recorded.

NOTE 2: MERGER

On July 22, 1997, shareholders of Durco International Inc. (Durco) and BW/IP, Inc. (BW/IP) voted to approve a merger between Durco and BW/IP in a stock-for-stock merger of equals that was accounted for as a pooling of interests transaction. As part of the merger agreement, the Company changed its name from Durco to Flowserve Corporation. The Company issued approximately 16,914,000 shares of common stock in connection with the merger. BW/IP shareholders received 0.6968 shares of the Company's common stock for each previously owned share of BW/IP stock.

The consolidated financial statements, including the accompanying notes thereto, have been restated for all periods prior to the merger to include the financial position, results of operations, and cash flows of BW/IP and Durco as if the merger had occurred at the beginning of all periods presented.

In connection with the merger, the Company recorded a one-time charge of $11,900 for merger-related expenses in 1997. These expenses included severance and other expenses triggered by the merger



and investment banking fees, legal fees, and other costs related to the merger, which are primarily nondeductible for tax purposes.

In 1997, the Company developed a merger integration program that includes facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training, and support for the service and repair operations. In the fourth quarter of 1997, the Company recognized a one-time restructuring charge of $32,600 related to this program. Other nonrecurring expenses related

to the merger (merger integration expense) were incurred in 1999, 1998 and 1997 in order to achieve the planned synergies. These expenses of $14,200, $38,300 and $7,000, respectively, were principally for costs for consultants, relocation and training.

As of June 30, 1999, the restructuring portion of the merger integration had been completed. The Company paid severance to approximately 331 employees at a cost of $22,400. Expenditures charged to the 1997 restructuring reserve were:

| | SEVERANCE | OTHER EXIT COSTS | TOTAL |
|---|---|---|---|
| Balance at October 27, 1997 | $22,400 | $10,200 | $ 32,600 |
| Cash expenditures | (3,400) | (500) | (3,900) |
| Noncash expenditures | -- | (1,200) | (1,200) |
| Balance at December 31, 1997 | 19,000 | 8,500 | 27,500 |
| Cash expenditures | (16,300) | (3,100) | (19,400) |
| Noncash expenditures | -- | (5,400) | (5,400) |
| Balance at December 31, 1998 | 2,700 | -- | 2,700 |
| Cash expenditures | (2,700) | -- | (2,700) |
| Noncash expenditures | -- | -- | -- |
| Balance at December 31, 1999 | $ -- | $ -- | $ -- |

NOTE 3: RESTRUCTURING

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15,860 recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations, as well as at other locations that are part of the restructuring.

The restructuring program is expected to result in a net reduction of approximately 300 employees at a cost of $12,900. In addition, exit costs associated with the facilities closings are estimated at $2,960. As of December 31, 1999, the program had resulted in a net reduction of 64 employees.

Expenditures charged to the 1999 restructuring reserve were:

| | SEVERANCE | OTHER EXIT COSTS | TOTAL |
|---|---|---|---|
| Balance at December 24, 1999 | $12,900 | $2,960 | $15,860 |
| Cash expenditures | (102) | -- | (102) |
| Noncash expenditures | -- | -- | -- |
| Balance at December 31, 1999 | $12,798 | $2,960 | $15,758 |





NOTE 4: ACQUISITIONS AND DISPOSITIONS

In October 1999, the Company purchased certain assets and liabilities of Honeywell's industrial control-valve product line and production equipment located near Frankfurt, Germany. The Company expects to complete the phased move of this operation to its existing control-valve manufacturing facilities in Europe by March 2000. This business generated revenues of about $7 million in 1999. In October 1999, the Company also acquired R&C Valve Service, Inc. The assets of this company were integrated into the Company's existing service

center network during the fourth quarter of 1999.

In July 1998, the Company purchased certain assets and liabilities of the Valtek Engineering Division of Allen Power Engineering, Limited, from Rolls Royce plc. The Valtek Engineering Division was the British licensee for many of Flowserve's control-valve products, with exclusive territorial rights for portions of Europe, the Middle East and Africa since 1971.

In September 1998, the Company acquired the remaining 49% ownership interest in Durametallic Asia Pte. Ltd., a fluid sealing manufacturer located in Singapore, from its joint-venture partner. Also in 1998, the Company acquired the outstanding shares of ARS Lokeren NV, a Belgian company, and ZAR Beheer BV, a Dutch company, which specialize in the service and repair of industrial valves, with service and repair facilities near Rotterdam, the Netherlands, and Ghent and Antwerp, Belgium.

In 1997, the Company purchased the 49% remaining shares of its joint venture in Argentina, Byron Jackson Argentina I.C.S.A., and purchased the engineered pump business of Stork Pompen, B.V.

The Company sold its wholly owned Metal Fab subsidiary for $18,793 in December 1997 and realized a pretax gain of $11,376. In addition, in 1997 the Company sold its Filtration Systems Division.

NOTE 5: STOCK PLANS

The Company maintains shareholder-approved stock option plans, which in 1999 provided for the grant of an additional 1,900,000 options to purchase shares of the Company's common stock. At December 31, 1999, approximately 1,089,500 options were available for grant. Options under these plans have been granted to officers and employees to purchase shares of common stock at or above the fair market value at the date of grant. Generally, these options, whether granted from the current or prior plans, become exercisable over staggered periods, but expire after 10 years from the date of the grant. The plan provides that any option may include a stock appreciation right; however, none has been granted since 1989. The aggregate number of shares exercisable was 2,117,816 at December 31, 1999; 1,703,171 at December 31, 1998; and 1,707,677 at December 31, 1997.

Stock options issued to officers and other employees were:

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Number of shares under option: | | | | | | |
| Outstanding at beginning of year | 2,831,614 | $23.49 | 2,246,557 | $25.05 | 1,842,239 | $22.83 |
| Granted | 1,249,501 | 18.29 | 794,240 | 18.50 | 690,270 | 26.53 |
| Exercised | (28,149) | 11.63 | (167,867) | 20.32 | (285,952) | 14.30 |
| Cancelled | (130,037) | 23.88 | (41,316) | 25.80 | -- | -- |
| Outstanding at end of year | 3,922,929 | $21.86 | 2,831,614 | $23.49 | 2,246,557 | $25.05 |





The weighted average contractual life of options outstanding is 7.4 years. Additional information relating to the range of options outstanding at December 31, 1999, is as follows:

| OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|

| RANGE OF EXERCISE PRICES PER SHARE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | NUMBER OUTSTANDING | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE | NUMBER EXERCISABLE AT DECEMBER 31, 1999 | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|---|---|---|
| $ 5.95 - $11.76 | 2.0 | 33,106 | $ 8.58 | 33,106 | $ 8.58 |
| $11.76 - $27.44 | 7.9 | 3,131,773 | $19.67 | 1,427,444 | $21.54 |
| $27.44 - $39.20 | 5.8 | 758,050 | $31.48 | 657,266 | $31.72 |
| | | 3,922,929 | | 2,117,816 | |

Pro forma information regarding net earnings and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its stock options granted subsequent to December 31, 1994, under the fair value method of that Statement. The "fair value" for these options at the date of grant was estimated using a binomial option pricing model (a modified Black-Scholes model). The assumptions used in this valuation are as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Risk-free interest rate | 6.1% | 5.6% | 5.5% |
| Dividend yield | 3.3% | 3.3% | 2.0% |
| Stock volatility | 32.5% | 34.1% | 35.5% |
| Average expected life (years) | 9.1 | 8.6 | 8.1 |

The options granted had a weighted average "fair value" per share on date of grant of $5.75 in 1999, $6.14 in 1998 and $10.69 in 1997. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting periods.

The Company's pro forma information is as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Net earnings | | | |
| As reported | $12,177 | $48,875 | $51,566 |
| Pro forma | 8,671 | 47,030 | 48,224 |
| Earnings per share (basic and diluted) | | | |
| As reported | $ 0.32 | $ 1.23 | $ 1.26 |
| Pro forma | 0.23 | 1.18 | 1.18 |

Because the determination of the fair value of all options granted includes an expected volatility factor and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects for future years.

The amended restricted stock plan as approved by shareholders in 1999 authorizes the grant of up to 250,000 shares of the Company's common stock. In general, the shares cannot be transferred for a period of at least one but not more than 10 years and are subject to forfeiture during the restriction period. The fair value of the shares is amortized to compensation expense over the periods in which the restrictions lapse. Restricted stock grants were 181,213 shares in 1999, 10,165 shares in 1998 and 21,700 shares in 1997. The weighted average fair value of the restricted stock grants at date of grant was $18.66 in 1999,

$24.07 in 1998 and $27.73 in 1997. Total compensation expense recognized in the income statement for all stock-based awards was $878 in 1999, $485 in 1998 and $510 in 1997.

NOTE 6: DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

INVENTORIES

Inventories and the method of determining cost were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Raw materials | $ 29,674 | $ 26,088 |
| Work in process and finished goods | 182,493 | 226,843 |
| Less: Progress billings | (5,746) | (15,024) |
| | 206,421 | 237,907 |
| LIFO reserve | (38,065) | (38,621) |
| Net inventory | $168,356 | $199,286 |
| Percent of inventory accounted for by LIFO | 64% | 61% |
| Percent of inventory accounted for by FIFO | 36% | 39% |

The U.S. operations of the former BW/IP changed its method of accounting for inventory to LIFO during 1998. Because the December 31, 1997, BW/IP inventory valued at FIFO is the opening LIFO inventory, there is neither a cumulative effect to January 1, 1998, nor pro forma amounts of retroactively applying the change to LIFO. The effect of the change in 1998 was not significant.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Land | $ 16,311 | $ 17,856 |
| Buildings, improvements, furniture and fixtures | 189,561 | 179,588 |
| Machinery, equipment, capital leases and construction in progress | 293,310 | 290,730 |
| | 499,182 | 488,174 |
| Less: Accumulated depreciation | (289,206) | (279,142) |
| Net property, plant and equipment | $ 209,976 | $ 209,032 |





OTHER ASSETS

Other assets were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Pension assets | $ -- | $11,461 |
| Deferred tax assets | 33,914 | 22,098 |
| Deferred compensation funding | 13,773 | 10,408 |
| Investments in unconsolidated affiliates | 7,091 | 5,331 |
| Prepaid financing fees | 2,882 | 935 |
| Long-term notes receivable | 1,978 | 2,914 |
| Other | 18,314 | 20,853 |
| Total | $77,952 | $74,000 |

ACCRUED LIABILITIES

Accrued liabilities were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Wages and other compensation | $ 56,285 | $ 62,249 |
| Accrued restructuring, current portion | 15,758 | 2,730 |
| Accrued commissions and royalties | 8,876 | 7,494 |
| Other | 30,901 | 34,555 |
| Total | $111,820 | $107,028 |

POST-RETIREMENT BENEFITS AND DEFERRED ITEMS

Post-retirement benefits and deferred items were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Post-retirement benefits | $ 65,359 | $ 64,311 |
| Deferred compensation | 19,251 | 13,231 |
| Deferred taxes | 26,233 | 16,977 |
| Other | 25,364 | 25,496 |
| Total | $136,207 | $120,015 |



NOTE 7: DEBT AND LEASE OBLIGATIONS

Long-term debt, including capital lease obligations, consisted of:

| | DECEMBER 31, |
|---|---|

| | 1999 | 1998 |
|---|---|---|
| Senior Notes, interest of 7.14% and 7.17% | $ 50,000 | $ 58,333 |
| Revolving credit agreement, interest at 7.07% in 1999 and 5.50% in 1998 | 140,000 | 124,000 |
| Loan, due annually through 2002, interest at 8.94% | 10,156 | 12,321 |
| Credit agreements, average interest rate 6.20% in 1998 | -- | 2,935 |
| Capital lease obligations and other | 979 | 3,096 |
| | 201,135 | 200,685 |
| Less amounts due within one year | 3,125 | 14,393 |
| Total long-term debt | $198,010 | $186,292 |

Maturities of long-term debt, including capital lease obligations, for the next five years are:

| | |
|---|---|
| 2000 | $ 3,125 |
| 2001 | 3,125 |
| 2002 | 9,906 |
| 2003 | 10,000 |
| 2004 | 10,000 |
| Thereafter | 164,979 |
| Total | $201,135 |

In October 1999, the Company entered into a five-year $600,000 revolving credit agreement that replaced the Company's existing $200,000 agreement. As of December 31, 1999, the Company had commitments available of $460,000, and $140,000 was outstanding. The Company has an interest-rate swap that fixes $50,000 usage of the revolving credit facility at 6.74%.

In connection with a German acquisition, the Company converted a deutsche-mark obligation through a currency swap agreement against its U.S. dollar private placement to fund the acquisition. The effective rate on the loan swap was 8.94%. Unrealized gains and losses on the hedge are not recognized in income, but are shown in the cumulative translation adjustment account included in shareholders' equity with the related amounts due to and from the counterparty included in long-term debt. The maturity and repayment terms of the swap match precisely the maturity and repayment term of the underlying debt.

In 1992, the Company issued $50,000 Senior Notes requiring annual payments of $8,333 through 1999, bearing interest at 7.92%. The final payment was made May 17, 1999. In 1996, the Company issued $30,000 Senior Notes requiring annual principal payments of $6,000 commencing in 2002, bearing interest of 7.14%. In 1997, the Company issued $20,000 in Senior Notes, bearing interest of 7.17% with principal payments of $4,000 due annually, commencing in 2003.

The provisions of the credit agreements require the Company to meet or exceed specified financial covenants that are defined in the agreements. The agreements also contain limitations or restrictions relating to new indebtedness and liens, disposition of assets, and payment of dividends or other distributions. All such covenants were met in each of the years presented. The most restrictive of these include a debt-to-capital ratio and a minimum tangible net worth requirement.





At December 31, 1998, the Company had short-term credit facilities available from banks under which it could borrow at local market rates up to $58,500. Under these facilities, the Company had borrowings outstanding of

$3,488 at December 31, 1998. The weighted average interest rate on these borrowings at December 31, 1998, was 6.0%. Borrowings against these facilities were used primarily to support the operations of foreign subsidiaries. These short-term credit facilities were terminated in 1999 and replaced by additional available credit under the revolving credit agreement.

As of December 31, 1999, the Company had contingent obligations of $10,518 relating to bank guarantees and credit lines and $27,083 relating to outstanding letters of credit and performance bonds.

The Company has noncancelable operating leases for certain offices, service and quick response centers, certain manufacturing and operations facilities, and machinery, equipment and automobiles. Rental expense relating to operating leases was $11,648 in 1999, $11,798 in 1998 and $15,000 in 1997.

The future minimum lease payments under noncancelable operating leases are:

| | |
|---|---|
| 2000 | $ 8,243 |
| 2001 | 5,870 |
| 2002 | 4,594 |
| 2003 | 3,085 |
| 2004 | 2,837 |
| Thereafter | 4,096 |
| Total | $28,725 |

NOTE 8: DEFERRED COMPENSATION -- RABBI TRUST

In September 1998, the Company adopted the provisions of EITF No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." This standard established new guidelines for deferred compensation arrangements where amounts earned by an employee are invested in the employer's stock that is placed in a Rabbi Trust. The EITF requires that the Company's stock held in the trust be recorded at historical cost, the corresponding deferred compensation liability recorded at the current fair value of the Company's stock, and the stock held in the Rabbi Trust classified as treasury stock. The difference between the historical cost of the stock and the fair value of the liability at September 30, 1998, has been recorded as a cumulative effect of a change in accounting principle of $1,220, net of tax. Prior-year financial statements have not been restated to reflect the change in accounting principle. The effect of the change on 1997 income before the cumulative effect would have been a reduction of $490. Subsequent to the adoption of the provision, the effect on continuing operations has been immaterial.

NOTE 9: RETIREMENT BENEFITS

The Company sponsors several noncontributory defined benefit pension plans, covering substantially all U.S. employees, which provide benefits based on years of service and compensation. Retirement benefits for all other employees are provided through defined contribution pension plans, cash balance pension plans and government-sponsored retirement programs. All defined benefit pension plans are funded based on independent actuarial valuations to provide for current service and an amount sufficient to amortize unfunded prior service over periods not to exceed 30 years.





Net defined benefit pension expense (including both qualified and nonqualified plans) was:

| | YEAR ENDED DECEMBER 31, |
|---|---|

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Service cost-benefits earned during the period..... | $ 7,817 | $ 6,411 | $ 5,627 |
| Interest cost on projected benefit obligations..... | 14,978 | 14,704 | 13,931 |
| Gain on plan assets..... | (19,137) | (18,086) | (16,284) |
| Unrecognized prior service (benefit) cost..... | (311) | 537 | (427) |
| Unrecognized net (asset) obligation..... | (529) | (499) | 576 |
| Net defined benefit pension expense..... | $ 2,818 | $ 3,067 | $ 3,423 |

The following table reconciles the plans' funded status to amounts recognized in the Company's consolidated balance sheets:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Projected benefit obligations..... | $208,745 | $ 226,463 |
| Plan assets, at fair value..... | 239,133 | 225,260 |
| Plan assets in excess of (less than) projected benefit obligations..... | 30,388 | (1,203) |
| Unrecognized net transition asset..... | (716) | (942) |
| Unrecognized net gain..... | (14,616) | (622) |
| Unrecognized prior service (cost) benefit..... | (21,426) | 2,612 |
| Net pension liability..... | $ (6,370) | $ (155) |
| Discount rate..... | 7.50% | 6.75% |
| Rate of increase in compensation levels..... | 4.5% | 4.0%-8.0% |
| Long-term rate of return on assets..... | 9.5% | 9.5% |

Following is a reconciliation of the defined benefit pension obligations:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Beginning benefit obligation..... | $226,463 | $210,878 |
| Service cost..... | 7,817 | 6,411 |
| Interest cost..... | 14,978 | 14,704 |
| Plan amendments..... | (21,617) | -- |
| Actuarial (gain) loss..... | (4,293) | 7,725 |
| Benefits paid..... | (14,603) | (13,154) |
| Curtailments..... | -- | (101) |
| Ending benefit obligation..... | $208,745 | $226,463 |





Following is a reconciliation of the defined benefit pension assets:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |

| | | |
|---|---|---|
| Beginning plan assets | $225,260 | $219,860 |
| Return on plan assets | 28,081 | 18,093 |
| Company contributions | 395 | 462 |
| Benefits paid | (14,603) | (13,155) |
| Ending plan assets | $239,133 | $225,260 |

The Company sponsors several defined contribution pension plans covering substantially all U.S. and Canadian employees and certain other foreign employees. Employees may contribute to these plans, and these contributions are matched in varying amounts by the Company. The Company may also make additional contributions for eligible employees. Defined contribution pension expense for the Company was $7,712 in 1999, $7,309 in 1998 and $7,733 in 1997. Effective July 1, 1999, three existing defined benefit programs for U.S. employees were consolidated into one program. The plan was amended to reflect the conversion of primarily final-average-pay methodologies into a cash balance design and resulted in lowering the defined benefit pension obligation by $21,617 in 1999. In conjunction with this change, new employee groups became eligible to participate in the plan.

The Company also sponsors several defined benefit post-retirement health care plans covering approximately 60% of future retirees and most current retirees in the United States. These plans are for medical and dental benefits and are provided through insurance companies and health maintenance organizations. The plans include participant contributions, deductibles, coinsurance provisions and other limitations, and are integrated with Medicare and other group plans. The plans are funded as insured benefits and health maintenance organization premiums are incurred.

Net post-retirement benefit expense comprised:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Service cost -- benefits earned during the period | $ 957 | $ 882 | $ 916 |
| Interest cost on accumulated post-retirement benefit obligations | 3,841 | 3,749 | 3,652 |
| Amortization of unrecognized prior service cost | (1,333) | (1,497) | (2,012) |
| Net post-retirement benefit expense | $ 3,465 | $ 3,134 | $ 2,556 |

Following is a reconciliation of the accumulated post-retirement benefits obligations:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Beginning accumulated post-retirement benefit obligation | $57,313 | $53,072 |
| Service cost | 957 | 882 |
| Interest cost | 3,841 | 3,749 |
| Plan amendments | (7,565) | -- |
| Actuarial (gain) loss | (1,396) | 3,460 |
| Benefits paid | (4,105) | (3,850) |
| Ending accumulated post-retirement benefit obligation | $49,045 | $57,313 |

The following table presents the components of post-retirement benefit amounts recognized in the Company's consolidated balance sheet:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Actuarial present value of accumulated post-retirement benefit obligations: | $49,045 | $57,313 |
| Unrecognized prior service benefit | 13,568 | 7,369 |
| Unrecognized net gain (loss) | 1,059 | (371) |
| Accrued post-retirement benefits | $63,672 | $64,311 |
| Discount rate | 7.50% | 6.75% |

The assumed ranges for the annual rates of increase in per capita costs for periods prior to Medicare were 7.5% for 1999 with a gradual decrease to 6.0% for 2002 and future years, and for periods after Medicare, 5.5% for 1999 with a gradual decrease to 5.0% for 2002 and future years.

Increasing the assumed rate of increase in post-retirement benefit costs by 1% in each year would increase net post-retirement benefit expense by approximately $304 and accumulated post-retirement benefit obligations by $3,379. Reducing the assumed rate of decrease in post-retirement benefit costs by 1% in each year would reduce net post-retirement benefit expense by approximately $280 and accumulated benefit obligations by $3,093.

The Company made contributions to the defined benefit post-retirement plan of $4,105 in 1999 and $3,850 in 1998.

NOTE 10: CONTINGENCIES

As of December 31, 1999, the Company was involved as a "potentially responsible party" (PRP) at five former public waste disposal sites that may be subject to remediation under pending government procedures. The sites are in various stages of evaluation by federal and state environmental authorities. The projected cost of remediating these sites, as well as the Company's alleged "fair share" allocation, is uncertain and speculative until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified, and the identification and location of additional parties is continuing under applicable federal or state law. Many of the other parties identified are financially strong and solvent companies that appear able to pay their share of the remediation costs. Based on the Company's preliminary information about the waste disposal practices at these sites and the environmental regulatory process in general, the Company believes that it is likely that ultimate remediation liability costs for each site will be apportioned among all liable parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites.

The Company is a defendant in numerous pending lawsuits (which include, in many cases, multiple claimants) that seek to recover damages for alleged personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and distributed by the Company. All such products were used within self-contained process equipment, and management does not believe that there was any emission of ambient asbestos fiber during the use of this equipment.

The Company is also a defendant in several other products liability lawsuits that are insured, subject to the applicable deductibles, and certain other noninsured lawsuits received in the ordinary course of business. Management believes that the Company has adequately accrued estimated losses for such lawsuits. No insurance recovery has been projected for any of the insured

claims, because management





currently believes that all will be resolved within applicable deductibles. The Company is also a party to other noninsured litigation that is incidental to its business, and, in management's opinion, will be resolved without a material impact on the Company's financial statements.

Although none of the aforementioned gives rise to any additional liability that can now be reasonably estimated, the Company believes such costs will be immaterial. The Company will continue to evaluate these contingent loss exposures and, if they develop, recognize expense as soon as such losses can be reasonably estimated.

NOTE 11: SHAREHOLDERS' EQUITY

In 1997, the Company increased its authorized $1.25 par value common stock from 60,000,000 to 120,000,000 shares. The authorized shares were increased in connection with the merger of Durco and BW/IP resulting in the formation of Flowserve Corporation. At both December 31, 1999 and 1998, the Company had authorized 1,000,000 shares of $1.00 par value preferred stock.

Each share of the Company's common stock contains a preferred stock purchase right. These rights are not currently exercisable and trade in tandem with the common stock. The rights become exercisable and trade separately in the event of certain significant changes in common stock ownership or on the commencement of certain tender offers that, in either case, may lead to a change of control of the Company. Upon becoming exercisable, the rights provide shareholders the opportunity to acquire a new series of Company preferred stock to be then automatically issued at a preestablished price. In the event of certain forms of acquisition of the Company, the rights also provide Company shareholders the opportunity to purchase shares of the acquiring Company's common stock from the acquirer at a 50% discount from the current market value. The rights are redeemable for $0.022 per right by the Company at any time prior to becoming exercisable and will expire in August 2006.

At December 31, 1999, approximately 2,210,323 shares of common stock were reserved for exercise of stock options and for grants of restricted stock.

NOTE 12: INCOME TAXES

The provision (benefit) for taxes on income consisted of the following:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Current: | | | |
| U.S. federal | $ 1,179 | $ 1,226 | $ 30,461 |
| Non-U.S. | 8,836 | 13,798 | 17,752 |
| State and local | 1,630 | 438 | 5,485 |
| Total current | 11,645 | 15,462 | 53,698 |
| Deferred: | | | |
| U.S. federal | (11,780) | 7,915 | (15,585) |
| Non-U.S. | 6,777 | 1,409 | 1,012 |
| State and local | (574) | 716 | (902) |
| Total deferred | (5,577) | 10,040 | (15,475) |
| Total provision | $ 6,068 | $25,502 | $ 38,223 |

The provision for taxes on income was different from the statutory corporate rate due to the following:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| Non-U.S. tax rate differential and utilization of operating loss carryforwards | 0.7 | 2.6 | 2.2 |
| Merger transaction expenses | -- | -- | 3.7 |
| State and local income taxes, net | 2.7 | 1.4 | 3.2 |
| Utilization of tax credits | (1.6) | (1.5) | (2.7) |
| Foreign sales corporation | (2.2) | (2.6) | (1.8) |
| Other net | (1.3) | -- | 3.0 |
| Effective tax rate | 33.3% | 34.9% | 42.6% |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated deferred tax assets and liabilities were:

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| Deferred tax assets related to: | | |
| Post-retirement benefits | $23,989 | $17,556 |
| Net operating loss carryforwards | 4,837 | 11,553 |
| Compensation accruals | 9,773 | 8,131 |
| Inventories | -- | 7,892 |
| Credit carryforwards | 5,410 | 3,679 |
| Loss on dispositions | 1,852 | 2,462 |
| Warranty and accrued liabilities | 2,542 | 1,258 |
| Restructuring charge | 9,013 | 988 |
| Other | 4,851 | 9,914 |
| Total deferred tax assets | 62,267 | 63,433 |
| Less valuation allowances | 7,763 | 8,655 |
| Net deferred tax assets | 54,504 | 54,778 |
| Deferred tax liabilities related to: | | |
| Property, plant and equipment | 12,520 | 13,563 |
| Goodwill | 10,610 | 12,225 |
| Other | 2,183 | 5,376 |
| Total deferred tax liabilities | 25,313 | 31,164 |
| Deferred tax assets, net | $29,191 | $23,614 |

The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of net operating loss and foreign tax credit carryforwards. The net changes in the valuation allowances were attributable to utilization and expiration of net operating loss carryforwards partially offset by an increase in expected nonutilization of net operating loss and credit carryforwards. The Company had approximately $13,000 of net operating loss carryforwards at December 31, 1999,

the majority of which was generated in non-U.S. jurisdictions in which net operating losses do not expire.





Earnings before income taxes comprised:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| U.S. | $(21,116) | $27,326 | $48,897 |
| Non-U.S. | 39,361 | 45,831 | 40,892 |
| | $ 18,245 | $73,157 | $89,789 |

Undistributed earnings of the Company's non-U.S. subsidiaries amounted to approximately $137,000 at December 31, 1999. These earnings are considered to be indefinitely reinvested and, accordingly, no additional U.S. income taxes or non-U.S. withholding taxes have been provided. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical.

NOTE 13: SEGMENT INFORMATION

Flowserve is principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. The Company provides pumps, valves, mechanical seals and flow management services primarily for the refinery and pipeline segments of the petroleum industry, the chemical-processing industry, the power-generation industry and other industries requiring flow management products.

The Company has three divisions, each of which constitutes a business segment. Each division manufactures different products and is defined by the type of products and services provided. Each division has a president, who reports directly to the Office of the Chief Executive, and a Division Controller. For decision-making purposes, the Chief Executive Officer, Chief Financial Officer and other members of upper management use financial information generated and reported at the division level.

The Rotating Equipment Division designs, manufactures and distributes pumps and related equipment. The Flow Control Division designs, manufactures and distributes automated and manual quarter-turn valves, control valves and valve actuators, and related components. The Flow Solutions Division designs, manufactures and distributes mechanical seals and sealing systems and provides service and repair for flow control equipment used in process industries. The Company also has a corporate headquarters that does not constitute a separate division or business segment. Amounts classified as All Other include Corporate Headquarters costs, other minor entities that are not considered separate segments and businesses subsequently divested. See Note 4: Acquisitions and Dispositions.





The Company evaluates segment performance and allocates resources based on profit or loss excluding merger transaction, integration, restructuring and interest expense, other income and income taxes. The accounting policies of the reportable segments are the same as described in Note 1: Significant Accounting Policies. Intersegment sales and transfers are recorded at cost plus a profit margin. This intersegment profit is eliminated in consolidation.

| | YEAR ENDED DECEMBER 31, 1999 | | | | |
|---|---|---|---|---|---|
| | ROTATING EQUIPMENT | FLOW CONTROL | FLOW SOLUTIONS | ALL OTHER | CONSOLIDATED TOTAL |
| Sales to external customers..... | $347,159 | $283,670 | $423,658 | $ 6,785 | $1,061,272 |
| Intersegment sales..... | 6,011 | 11,650 | 14,841 | (32,502) | -- |
| Segment operating income(1)..... | 19,927 | 23,536 | 55,882 | (37,530) | 61,815 |
| Segment operating income (before all special items)..... | 23,095 | 25,069 | 56,148 | (31,631) | 72,681 |
| Depreciation and amortization..... | 10,246 | 9,824 | 12,998 | 6,531 | 39,599 |
| Identifiable assets..... | $222,999 | $213,322 | $292,015 | $109,815 | $ 838,151 |
| Capital expenditures..... | 12,377 | 4,583 | 17,068 | 6,507 | 40,535 |

---

(1) Excludes merger transaction, integration, restructuring, interest expense, other income and income taxes.

| | YEAR ENDED DECEMBER 31, 1998 | | | | |
|---|---|---|---|---|---|
| | ROTATING EQUIPMENT | FLOW CONTROL | FLOW SOLUTIONS | ALL OTHER | CONSOLIDATED TOTAL |
| Sales to external customers..... | $365,806 | $298,918 | $412,076 | $ 6,286 | $1,083,086 |
| Intersegment sales..... | 5,663 | 14,253 | 16,436 | (36,352) | -- |
| Segment operating income(1)..... | 39,078 | 43,826 | 65,113 | (24,612) | 123,405 |
| Depreciation and amortization..... | 11,535 | 11,290 | 13,186 | 3,288 | 39,299 |
| Identifiable assets..... | $285,618 | $233,120 | $266,485 | $ 84,974 | $ 870,197 |
| Capital expenditures..... | 13,416 | 9,284 | 15,049 | 500 | 38,249 |

---

(1) Excludes merger transaction, integration, restructuring, interest expense, other income and income taxes.

| | YEAR ENDED DECEMBER 31, 1997 | | | | |
|---|---|---|---|---|---|
| | ROTATING EQUIPMENT | FLOW CONTROL | FLOW SOLUTIONS | ALL OTHER | CONSOLIDATED TOTAL |
| Sales to external customers..... | $403,801 | $305,150 | $415,321 | $ 27,924 | $1,152,196 |
| Intersegment sales..... | 9,000 | 12,001 | 14,780 | (35,781) | -- |
| Segment operating income(1)..... | 50,969 | 46,981 | 62,728 | (24,584) | 136,094 |
| Depreciation and amortization..... | 9,767 | 9,160 | 13,286 | 6,720 | 38,933 |
| Identifiable assets..... | $301,176 | $219,074 | $257,531 | $102,244 | $ 880,025 |
| Capital expenditures..... | 14,623 | 8,140 | 11,733 | 5,064 | 39,560 |

---

(1) Excludes merger transaction, integration, restructuring, interest expense, other income and income taxes.



RECONCILIATION OF SEGMENT INFORMATION TO CONSOLIDATED AMOUNTS

Significant items from the Company's reportable segments can be reconciled

to the consolidated amounts as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| SALES | | | |
| Total sales for reportable segments | $1,054,487 | $1,076,800 | $1,124,272 |
| Total intersegment sales for reportable segments | 32,502 | 36,352 | 35,781 |
| Other sales | 6,785 | 6,286 | 27,924 |
| Elimination of intersegment sales | (32,502) | (36,352) | (35,781) |
| Total sales | $1,061,272 | $1,083,086 | $1,152,196 |

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| PROFIT OR LOSS | | | |
| Total segment operating income | $ 99,345 | $ 148,017 | $ 160,678 |
| Corporate expenses and other | 37,530 | 24,612 | 24,584 |
| Restructuring and merger transaction expense | 15,860 | -- | 44,531 |
| Merger integration expense | 14,207 | 38,326 | 6,982 |
| Interest expense | 15,504 | 13,175 | 13,275 |
| Other income | (2,001) | (1,253) | (7,107) |
| Gain on sale of subsidiary | -- | -- | (11,376) |
| Earnings before income taxes | $ 18,245 | $ 73,157 | $ 89,789 |

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| ASSETS | | | |
| Total assets for reportable segments | $ 728,336 | $ 785,223 | $ 777,781 |
| Other assets | 141,911 | 106,552 | 125,826 |
| Elimination of intercompany receivables | (32,096) | (21,578) | (23,582) |
| Total assets | $ 838,151 | $ 870,197 | $ 880,025 |





GEOGRAPHIC INFORMATION

The Company attributes revenues to different geographic areas based on the facilities location. Long-lived assets are classified based on the geographic area in which the assets are located. Sales related to and investment in identifiable assets by geographic area are as follows:

| | YEAR ENDED DECEMBER 31, 1999 |
|---|---|

| | SALES | LONG-LIVED ASSETS |
|---|---|---|
| United States | $ 611,374 | $243,107 |
| Europe | 270,850 | 81,616 |
| Other(1) | 179,048 | 28,559 |
| Consolidated total | $1,061,272 | $353,282 |

| | YEAR ENDED DECEMBER 31, 1998 | |
|---|---|---|
| | SALES | LONG-LIVED ASSETS |
| United States | $ 629,117 | $250,999 |
| Europe | 279,117 | 81,058 |
| Other(1) | 174,852 | 28,751 |
| Consolidated total | $1,083,086 | $360,808 |

| | YEAR ENDED DECEMBER 31, 1997 | |
|---|---|---|
| | SALES | LONG-LIVED ASSETS |
| United States | $ 691,337 | $228,056 |
| Europe | 261,289 | 78,400 |
| Other(1) | 199,570 | 32,991 |
| Consolidated total | $1,152,196 | $339,447 |

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(1) Includes Canada, Latin America and Asia/Pacific. No individual geographic segment within this group represents 10% or more of consolidated totals.

MAJOR CUSTOMER INFORMATION

The Company has not received revenues from any customer that represent 10% or more of consolidated revenues for any of the years presented.





NOTE 14: UNAUDITED QUARTERLY FINANCIAL DATA

| | 1999(A) | | | | 1998 (B) | | | |
|---|---|---|---|---|---|---|---|---|
| QUARTER | 4TH | 3RD | 2ND | 1ST | 4TH | 3RD | 2ND | 1ST |
| | (AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA) | | | | | | | |
| Net sales | $262.7 | $254.0 | $275.2 | $269.4 | $279.3 | $264.8 | $280.7 | $258.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross profit..... | 84.3 | 88.3 | 93.9 | 96.8 | 108.5 | 99.6 | 106.0 | 101.2 |
| Net earnings before special items..... | 8.6 | 6.8 | 11.4 | 12.7 | 19.0 | 17.6 | 20.2 | 18.1 |
| Net earnings..... | (11.6) | 4.9 | 8.5 | 10.4 | 7.2 | 16.1 | 12.5 | 13.1 |
| Earnings per share before special items (basic and diluted)... | $ 0.23 | $ 0.18 | $ 0.30 | $ 0.34 | $ 0.50 | $ 0.44 | $ 0.50 | $ 0.44 |
| Earnings per share (basic and diluted)... | (0.31) | 0.13 | 0.22 | 0.28 | 0.20 | 0.40 | 0.31 | 0.32 |

---

(a) Net earnings in 1999 include merger expenses of $14.2 million, restructuring expenses of $15.9 million, other nonrecurring items for inventory and fixed asset impairment of $5.1 million (included in costs of goods sold), and executive separation contracts and certain costs related to fourth-quarter 1999 facility closures of $5.8 million (included in selling and administrative expense), resulting in a reduction in net earnings of $27.3 million, or $0.72 per share after tax.

(b) Net earnings in 1998 included merger expenses of $38.3 million, an obligation under an executive employment agreement of $3.8 million (included in selling and administrative expense) and the benefit of the cumulative effect of an accounting change of $1.2 million, resulting in a reduction in net earnings of $26.1 million, or $0.65 per share after tax.

NOTE 15: SUBSEQUENT EVENTS

On November 18, 1999, the Company announced that it had signed a definitive agreement to acquire all outstanding stock of Innovative Valve Technologies, Inc. (Invatec) for $1.62 per share, or about $15.7 million. In addition, the Company would assume Invatec's projected debt and related obligations of about $84.0 million, plus certain transaction-related expenses. Invatec, headquartered in Houston, Texas, had unaudited 1999 net revenues of $161.0 million and is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers. On January 6, 2000, the Company's offer to purchase all outstanding shares of common stock expired with approximately 92.3% of the total outstanding shares tendered. The Company then implemented a statutory merger of Invatec and acquired all of the remaining outstanding shares.

On February 9, 2000, the Company announced that it had signed a definitive agreement to acquire Ingersoll-Dresser Pumps (IDP) for $775 million in cash. The Acquisition closed August 8, 2000. IDP is a wholly owned business unit of Ingersoll-Rand Company and recorded 1999 sales of $838.0 million and operating income of $62.4 million after special items. The transaction was accounted for as a purchase and was financed with a combination of bank financing and senior subordinated notes. Flowserve received $1,425 million of financing in connection with the acquisition and repaid its existing indebtedness at the date of the acquisition. In connection with the acquisition, the Company announced that it would be closing certain operating facilities and reducing its workforce.





NOTE 16: GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

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

The following condensed consolidating financial information presents:

(1) Condensed consolidating balance sheets as of December 31, 1999 and 1998 and the related statements of income and cash flows for each of the three years in the period ended December 31, 1999, of (a) Flowserve Corporation, the parent; (b) the guarantor subsidiaries; (c) the nonguarantor subsidiaries; and the Company on a consolidated basis, and

(2) Elimination entries necessary to consolidate Flowserve Corporation, the parent, with guarantor and nonguarantor subsidiaries.

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





FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Sales | $140,710 | $519,035 | $472,563 | $(71,036) | $1,061,272 |
| Cost of sales | 72,042 | 380,302 | 316,620 | (71,036) | 697,928 |
| Gross Profit | 68,668 | 138,733 | 155,943 | -- | 363,344 |
| Selling and administrative expense | 61,195 | 121,417 | 93,272 | -- | 275,884 |
| Research, engineering and development expense | 5,265 | 16,546 | 3,834 | -- | 25,645 |
| Merger transaction and restructuring expense | -- | 13,674 | 2,186 | -- | 15,860 |
| Merger integration expense | -- | 13,514 | 693 | -- | 14,207 |
| Operating income | 2,208 | (26,418) | 55,958 | -- | 31,748 |
| Interest expense | 2,064 | 16,845 | 2,580 | (5,985) | 15,504 |
| Other (income) expense, net | (1,935) | (15,490) | 9,439 | 5,985 | (2,001) |
| Equity in earnings of subsidiaries | (10,915) | -- | -- | 10,915 | -- |
| Earnings (loss) before income taxes | 12,994 | (27,773) | 43,939 | (10,915) | 18,245 |
| Provision (benefit) for income taxes | 817 | (8,027) | 13,278 | -- | 6,068 |
| Net earnings | $ 12,177 | $(19,746) | $ 30,661 | $(10,915) | $ 12,177 |



FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1998
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Sales | $153,292 | $582,691 | $441,701 | $(94,598) | $1,083,086 |
| Cost of sales | 104,383 | 374,684 | 283,284 | (94,598) | 667,753 |
| Gross Profit | 48,909 | 208,007 | 158,417 | -- | 415,333 |
| Selling and administrative expense | 41,076 | 135,887 | 88,593 | -- | 265,556 |
| Research, engineering and development expense | 5,361 | 16,618 | 4,393 | -- | 26,372 |
| Merger integration expense | 5,976 | 24,325 | 8,025 | -- | 38,326 |
| Operating income (loss) | (3,504) | 31,177 | 57,406 | -- | 85,079 |
| Interest expense | 4,513 | 6,974 | 3,244 | (1,556) | 13,175 |
| Other (income) expense, net | (5,738) | (6,166) | 9,095 | 1,556 | (1,253) |
| Equity in earnings of subsidiaries | (49,287) | -- | -- | 49,287 | |
| Earnings before income taxes | 47,008 | 30,369 | 45,067 | (49,287) | 73,157 |
| Provision (benefit) for income taxes | (647) | 9,663 | 16,486 | -- | 25,502 |
| Earnings before cumulative effect of change in accounting principle | 47,655 | 20,706 | 28,581 | (49,287) | 47,655 |
| Cumulative effect of change in accounting principle | (1,220) | -- | -- | -- | (1,220) |
| Net earnings | $ 48,875 | $ 20,706 | $ 28,581 | $(49,287) | $ 48,875 |





FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Sales | $188,673 | $604,141 | $452,504 | $(93,122) | $1,152,196 |
| Cost of sales | 120,018 | 382,223 | 294,200 | (93,122) | 703,319 |
| Gross Profit | 68,655 | 221,918 | 158,304 | -- | 448,877 |
| Selling and administrative expense | 60,415 | 125,674 | 99,801 | -- | 285,890 |
| Research, engineering and development expense | 4,978 | 14,363 | 7,552 | -- | 26,893 |
| Merger transaction and restructuring expense | 33,019 | 714 | 10,798 | -- | 44,531 |
| Merger integration expense | -- | -- | 6,982 | -- | 6,982 |
| Operating income (loss) | (29,757) | 81,167 | 33,171 | -- | 84,581 |
| Interest expense | 3,428 | 8,224 | 4,114 | (2,491) | 13,275 |
| Other (income) expense, net | (7,143) | (5,376) | 2,921 | 2,491 | (7,107) |
| Equity in earnings loss of subsidiaries | (71,710) | -- | -- | 71,710 | -- |
| Gain on sale of subsidiary | -- | -- | (11,376) | | (11,376) |
| Earnings before income taxes | 45,668 | 78,319 | 37,512 | (71,710) | 89,789 |
| Provision (benefit) for income taxes | (5,898) | 26,822 | 17,299 | | 38,223 |
| Net earnings | $ 51,566 | $ 51,497 | $ 20,213 | $(71,710) | $ 51,566 |

FLOWSERVE CORPORATION
CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ -- | $ 889 | $ 29,966 | $ (392) | $ 30,463 |
| Inter-company receivables | 194,594 | 930 | 7,640 | (203,164) | -- |
| Accounts receivable, net | 16,702 | 94,639 | 102,284 | -- | 213,625 |
| Inventories | 17,811 | 76,580 | 73,965 | -- | 168,356 |
| Prepaids and other current assets | -- | 34,639 | 11,733 | (5,028) | 41,344 |
| Total current assets | 229,107 | 207,677 | 225,588 | (208,584) | 453,788 |
| Property, plant and equipment, net | 33,223 | 118,356 | 58,397 | -- | 209,976 |
| Investment in subsidiaries | 403,643 | 273,430 | -- | (677,073) | -- |
| Inter-company receivables | 60,432 | 209,138 | 20,674 | (290,244) | -- |
| Intangible assets, net | 2,744 | 39,045 | 54,646 | -- | 96,435 |
| Other assets | 40,954 | 35,175 | 1,823 | -- | 77,952 |
| Total assets | $770,103 | $882,821 | $361,128 | $(1,175,901) | $838,151 |
| Current liabilities: | | | | | |
| Accounts payable | $ 12,481 | $ 31,659 | $ 32,164 | $ (4,201) | $ 72,103 |
| Inter-company payables | 159,578 | 21,494 | 22,092 | (203,164) | -- |
| Notes payable | 734 | -- | -- | -- | 734 |
| Income taxes | 3,592 | -- | 5,505 | (1,219) | 7,878 |
| Accrued liabilities | 11,813 | 64,963 | 35,044 | -- | 111,820 |
| Long-term debt due within one year | 870 | 387 | 1,868 | -- | 3,125 |
| Total current liabilities | 189,068 | 118,503 | 96,673 | (208,584) | 195,660 |
| Long-term debt due after one year | 4,610 | 190,000 | 3,400 | -- | 198,010 |
| Total Inter-company loans payable | 233,473 | 16,479 | 40,292 | (290,244) | -- |
| Post-retirement benefits and deferred items | 34,678 | 86,640 | 14,889 | -- | 136,207 |
| Shareholder's Equity: | | | | | |
| Serial preferred stock, $1.00 par value | -- | -- | -- | -- | -- |
| Common shares, $1.25 par value | 51,856 | 1 | 71,933 | (71,934) | 51,856 |
| Capital in excess of par value | 67,963 | 168,495 | 91,238 | (259,733) | 67,963 |
| Retained earnings | 344,254 | 357,605 | 46,468 | (404,073) | 344,254 |
| | 464,073 | 526,101 | 209,639 | (735,740) | 464,073 |
| Treasury stock at cost | (93,448) | (612) | 1,837 | (1,225) | (93,448) |
| Accumulated other comprehensive income | (62,351) | (54,290) | (5,602) | 59,892 | (62,351) |
| Total shareholders' equity | 308,274 | 471,199 | 205,874 | (677,073) | 308,274 |
| Total liabilities and shareholders' equity | $770,103 | $882,821 | $361,128 | $(1,175,901) | $838,151 |



FLOWSERVE CORPORATION
CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED DECEMBER 31, 1998
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ -- | $ -- | $ 31,062 | $ (6,134) | $ 24,928 |
| Inter-company receivables | 8,101 | 57,828 | 45,213 | (111,142) | -- |
| Accounts receivable, net | 14,543 | 109,098 | 110,550 | -- | 234,191 |
| Inventories | 31,087 | 94,627 | 73,572 | -- | 199,286 |
| Prepaids and other current assets | 26,298 | 16,060 | 6,986 | (20,459) | 28,885 |

| | | | | | |
|---|---|---|---|---|---|
| Total current assets | 80,029 | 277,613 | 267,383 | (137,735) | 487,290 |
| Property, plant and equipment, net | 29,377 | 122,073 | 57,582 | -- | 209,032 |
| Investments in subsidiaries | 354,144 | 110,185 | -- | (464,329) | -- |
| Inter-company receivables | 170,268 | -- | 34,628 | (204,896) | -- |
| Intangible assets, net | 5,621 | 35,219 | 59,035 | -- | 99,875 |
| Other assets | 56,759 | 12,360 | 4,881 | -- | 74,000 |
| Total assets | $696,198 | $557,450 | $423,509 | $(806,960) | $870,197 |
| Current liabilities: | | | | | |
| Accounts payable | $ 7,062 | $ 44,782 | $ 31,035 | $ (6,134) | $ 76,745 |
| Inter-company payables | 53,029 | -- | 58,113 | (111,142) | -- |
| Notes payable | 3,488 | -- | -- | -- | 3,488 |
| Income taxes | -- | 27,264 | 10,667 | (20,459) | 17,472 |
| Accrued liabilities | 30,446 | 40,503 | 36,079 | -- | 107,028 |
| Long-term debt due within one year | (2,522) | 8,790 | 8,125 | -- | 14,393 |
| Total current liabilities | 91,503 | 121,339 | 144,019 | (137,735) | 219,126 |
| Long-term debt due after one year | 130,855 | 51,603 | 3,834 | -- | 186,292 |
| Total Inter-company loans payable | 52,610 | 63,405 | 88,881 | (204,896) | -- |
| Post-retirement benefits and deferred items | 76,466 | 27,440 | 16,109 | -- | 120,015 |
| Shareholder's Equity: | | | | | |
| Serial preferred stock, $1.00 par value | -- | -- | -- | -- | -- |
| Common shares, $1.25 par value | 51,856 | 1 | 32,680 | (32,681) | 51,856 |
| Capital in excess of par value | 70,698 | 10,148 | 130,779 | (140,927) | 70,698 |
| Retained earnings | 353,249 | 293,013 | 22,628 | (315,641) | 353,249 |
| | 475,803 | 303,162 | 186,087 | (489,249) | 475,803 |
| Treasury stock at cost | (90,404) | 613 | (125) | (488) | (90,404) |
| Accumulated other comprehensive income | (40,635) | (10,112) | (15,296) | 25,408 | (40,635) |
| Total shareholders' equity | 344,764 | 293,663 | 170,666 | (464,329) | 344,764 |
| Total liabilities and shareholders' equity | $696,198 | $557,450 | $423,509 | $(806,960) | $870,197 |



FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Cash Flows -- Operating Activities: | | | | | |
| Net earnings | $ 12,177 | $ (19,746) | $ 30,661 | $ (10,915) | $ 12,177 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | | | |
| Depreciation | 2,771 | 18,003 | 14,271 | -- | 35,045 |
| Amortization | 450 | 1,484 | 2,620 | -- | 4,554 |
| Loss on sale of fixed assets | 232 | 294 | (86) | -- | 440 |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | | | |
| Accounts receivable | (2,159) | 14,459 | 423 | -- | 12,723 |
| Inventories | 13,276 | 18,047 | (2,964) | -- | 28,359 |
| Intercompany receivable and payables | 161,256 | (340,917) | (80,885) | 260,546 | -- |
| Loss on impairment of facilities and equipment | 2,834 | -- | -- | -- | 2,834 |
| Prepaid expenses | (15,236) | 6,359 | (4,033) | -- | (12,910) |
| Other assets | 18,232 | (28,125) | 10,329 | -- | 436 |
| Accounts payable | 1,610 | (13,123) | 3,852 | 5,742 | (1,919) |
| Accrued liabilities | (18,633) | 24,460 | 506 | -- | 6,333 |
| Income taxes | 24,051 | (28,483) | (7,963) | -- | (12,395) |
| Post-retirement benefits and deferred items | (29,941) | 47,176 | (9,163) | -- | 8,072 |
| Net deferred taxes | 13,037 | (11,695) | (3,159) | -- | (1,817) |
| Net cash provided by (used in) operating activities | 183,957 | (311,807) | (45,591) | 255,373 | 81,932 |
| Cash Flows -- Investing Activities: | | | | | |
| Capital expenditures, net of disposals | (3,940) | (14,580) | (22,015) | -- | (40,535) |
| Payments for acquisitions, net of cash acquired | (5,743) | -- | -- | -- | (5,743) |
| Net cash flows used in investing activities | (9,683) | (14,580) | (22,015) | -- | (46,278) |
| Cash Flows -- Financing Activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net repayments under lines of credit..... | 638 | (8,403) | (5,880) | -- | (13,645) |
| Payments on long-term debt..... | (8,333) | -- | 1,963 | -- | (6,370) |
| Proceeds from long-term debt..... | (117,912) | 138,397 | (1,709) | -- | 18,776 |
| Repurchase of common stock..... | (5,250) | -- | -- | -- | (5,250) |
| Proceeds from issuance of common stock..... | (529) | -- | -- | -- | (529) |
| Dividends paid..... | (21,172) | -- | -- | -- | (21,172) |
| Other..... | -- | 241,460 | 7,329 | (249,631) | (842) |
| Net cash flows used in financing activities.... | (152,558) | 371,454 | 1,703 | (249,631) | (29,032) |
| Effect of exchange rate changes..... | (21,716) | (44,178) | 64,807 | -- | (1,087) |
| Net change in cash and cash equivalents..... | -- | 889 | (1,096) | 5,742 | 5,535 |
| Cash and cash equivalents at beginning of year..... | -- | -- | 31,062 | (6,134) | 24,928 |
| Cash and cash equivalents at end of year..... | $ -- | $ 889 | $ 29,966 | $ (392) | $ 30,463 |





FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Cash Flows -- Operating Activities: | | | | | |
| Net earnings..... | $ 48,875 | $ 20,706 | $ 28,581 | $(49,287) | $ 48,875 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | | | |
| Depreciation..... | 3,213 | 16,647 | 15,250 | -- | 35,110 |
| Amortization..... | (1,153) | 1,842 | 3,500 | -- | 4,189 |
| Gain on sale of subsidiary, net of income taxes..... | -- | -- | -- | -- | -- |
| Loss on sale of fixed assets..... | -- | (71) | 128 | -- | 57 |
| Cumulative effect of change in accounting principle..... | (1,220) | -- | -- | -- | (1,220) |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | | | |
| Accounts receivable..... | 7,530 | (8,755) | 4,240 | -- | 3,015 |
| Inventories..... | (769) | (10,458) | (280) | -- | (11,507) |
| Intercompany receivable and payables..... | (48,682) | 20,804 | (54,576) | 82,454 | -- |
| Prepaid expenses..... | 3,233 | 1,377 | 4,108 | -- | 8,718 |
| Other assets..... | 10,296 | 13,817 | (35,179) | -- | (11,066) |
| Accounts payable..... | 315 | 16,780 | (5,308) | (6,133) | 5,654 |
| Accrued liabilities..... | (20,102) | (10,349) | 4,603 | -- | (25,848) |
| Income taxes..... | (1,820) | 16,160 | (13,289) | -- | 1,051 |
| Post-retirement benefits and deferred items..... | 23,063 | (5,080) | (21,692) | -- | (3,709) |
| Net deferred taxes..... | (12,353) | 4,157 | 9,229 | -- | 1,033 |
| Other..... | -- | -- | (248) | -- | (248) |
| Net cash provided by (used in) operating activities..... | 10,426 | 77,577 | (60,933) | 27,034 | 54,104 |
| Cash Flows -- Investing Activities: | | | | | |
| Capital expenditures, net of disposals..... | 15,871 | (16,804) | (37,316) | -- | (38,249) |
| Payments for acquisitions, net of cash acquired..... | (19,951) | -- | -- | -- | (19,951) |
| Other..... | -- | -- | (427) | -- | (427) |
| Net cash flows used in investing activities..... | (4,080) | (16,804) | (37,743) | -- | (58,627) |
| Cash Flows -- Financing Activities: | | | | | |
| Net repayments under lines of credit..... | (4,678) | 410 | 1,954 | -- | (2,314) |
| Payments on long-term debt..... | -- | -- | (20,212) | -- | (20,212) |
| Proceeds from long-term debt..... | 73,153 | (14,600) | 18,397 | -- | 76,950 |
| Repurchase of common stock..... | (64,508) | -- | -- | -- | (64,508) |
| Proceeds from issuance of common stock..... | 4,764 | -- | -- | -- | 4,764 |
| Dividends paid..... | (22,307) | -- | -- | -- | (22,307) |
| Other..... | (6,492) | (44,968) | 84,628 | (33,168) | -- |
| Net cash flows provided by (used in) financing activities..... | (20,068) | (59,158) | 84,767 | (33,168) | (27,627) |
| Effect of exchange rate changes..... | (9,621) | (7,328) | 15,425 | -- | (1,524) |
| Net change in cash and cash equivalents..... | (23,343) | (5,713) | 1,516 | (6,134) | (33,674) |
| Cash and cash equivalents at beginning of year..... | 23,343 | 5,713 | 29,546 | -- | 58,602 |
| Cash and cash equivalents at end of year..... | $ -- | $ -- | $ 31,062 | $ (6,134) | $ 24,928 |

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1997
(AMOUNTS IN THOUSANDS)

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Cash Flows -- Operating Activities: | | | | | |
| Net earnings | $ 51,566 | $ 51,497 | $ 20,213 | $(71,710) | $ 51,566 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | | | -- |
| Depreciation | 5,098 | 7,775 | 22,404 | -- | 35,277 |
| Amortization | -- | 777 | 2,879 | -- | 3,656 |
| Gain on sale of subsidiary, net of income taxes | (7,417) | -- | -- | -- | (7,417) |
| Loss on sale of fixed assets | 33 | -- | -- | -- | 33 |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | | | |
| Accounts receivable | 3,464 | (22,322) | 457 | -- | (18,401) |
| Inventories | (3,966) | (4,982) | (995) | -- | (9,943) |
| Intercompany receivable and payables | (46,930) | 61,126 | (8,609) | (5,587) | -- |
| Prepaid expenses | (20,003) | (2,933) | 12,649 | -- | (10,287) |
| Other assets | (1,486) | 9,213 | (20,959) | -- | (13,232) |
| Accounts payable | 71 | 1,473 | 30 | -- | 1,574 |
| Accrued liabilities | 41,880 | (21,328) | 28,254 | -- | 48,806 |
| Income taxes | (1,605) | 9,428 | (9,828) | -- | (2,005) |
| Post-retirement benefits and deferred items | 19,776 | (7,037) | 456 | -- | 13,195 |
| Net deferred taxes | 195 | (9,297) | 7,625 | -- | (1,477) |
| Other | (1,342) | -- | -- | -- | (1,342) |
| Net cash provided by (used in) operating activities | 39,334 | 73,390 | 54,576 | (77,297) | 90,003 |
| Cash Flows -- Investing Activities: | | | | | |
| Capital expenditures, net of disposals | (6,667) | (9,367) | (23,526) | -- | (39,560) |
| Payments for acquisitions, net of cash acquired | (10,461) | -- | -- | -- | (10,461) |
| Proceeds from sale of subsidiary | 18,793 | -- | -- | -- | 18,793 |
| Other | 1,777 | -- | -- | -- | 1,777 |
| Net cash flows used in investing activities | 3,442 | (9,367) | (23,526) | -- | (29,451) |
| Cash Flows -- Financing Activities: | | | | | |
| Net repayments under lines of credit | 2,027 | (458) | (993) | -- | 576 |
| Payments on long-term debt | (15,760) | -- | -- | -- | (15,760) |
| Proceeds from long-term debt | 26,956 | (14,706) | (11,321) | -- | 929 |
| Proceeds from issuance of common stock | 2,584 | -- | -- | -- | 2,584 |
| Dividends paid | (26,121) | -- | -- | -- | (26,121) |
| Other | 2,668 | (42,181) | (37,784) | 77,297 | -- |
| Net cash flows used in financing activities | (7,646) | (57,345) | (50,098) | 77,297 | (37,792) |
| Effect of exchange rate changes | (24,048) | (2,784) | 23,741 | -- | (3,091) |
| Net change in cash and cash equivalents | 11,082 | 3,894 | 4,693 | -- | 19,669 |
| Cash and cash equivalents at beginning of year | 12,261 | 1,819 | 24,853 | -- | 38,933 |
| Cash and cash equivalents at end of year | $ 23,343 | $ 5,713 | $ 29,546 | $ -- | $ 58,602 |



FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---|---|---|

| | (UNAUDITED) (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 14,495 | $ 30,463 |
| Accounts receivable, net | 246,331 | 213,625 |
| Inventories | 210,617 | 168,356 |
| Prepaids and other current assets | 37,094 | 41,344 |
| Total current assets | 508,537 | 453,788 |
| Property, plant and equipment, net | 221,336 | 209,976 |
| Intangible assets, net | 151,352 | 96,435 |
| Other assets | 80,851 | 77,952 |
| Total assets | $962,076 | $838,151 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 76,802 | $ 72,103 |
| Notes payable | 531 | 734 |
| Income taxes | 8,904 | 7,878 |
| Accrued liabilities | 96,957 | 111,820 |
| Long-term debt due within one year | 44 | 3,125 |
| Total current liabilities | 183,238 | 195,660 |
| Long-term debt due after one year | 315,348 | 198,010 |
| Postretirement benefits and deferred items | 146,963 | 136,207 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Serial preferred stock, $1.00 par value Shares authorized -- 1,000 Shares issued and outstanding -- None | -- | -- |
| Common stock, $1.25 par value Shares authorized -- 120,000 Shares issued and outstanding -- 41,484 | 51,856 | 51,856 |
| Capital in excess of par value | 67,697 | 67,963 |
| Retained earnings | 368,754 | 344,254 |
| | 488,307 | 464,073 |
| Treasury stock at cost - 4,065 and 4,071 shares | (93,226) | (93,448) |
| Accumulated other comprehensive expense | (78,554) | (62,351) |
| Total shareholders' equity | 316,527 | 308,274 |
| Total liabilities and shareholders' equity | $962,076 | $838,151 |

See accompanying notes to consolidated financial statements.



FLOWSERVE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | |
| Sales | $584,462 | $544,583 |
| Cost of sales | 382,070 | 353,903 |
| Gross profit | 202,392 | 190,680 |
| Selling and administrative expense | 142,220 | 133,314 |

| | | |
|---|---|---|
| Research, engineering and development expense | 12,353 | 13,199 |
| Merger integration expense | -- | 7,838 |
| Operating income | 47,819 | 36,329 |
| Interest expense | 13,576 | 7,203 |
| Other (income) expense, net | (3,161) | 525 |
| Earnings before income taxes | 37,404 | 28,601 |
| Provision for income taxes | 12,905 | 9,724 |
| Net earnings | $ 24,499 | $ 18,877 |
| Earnings per share (basic and diluted) | $ 0.65 | $ .50 |
| Average shares outstanding | 37,810 | 37,771 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (AMOUNTS IN THOUSANDS) | |
| Net earnings | $24,499 | $18,877 |
| Foreign currency translation adjustments | 16,202 | 3,878 |
| Comprehensive income | $ 8,297 | $14,999 |

See accompanying notes to consolidated financial statements.



FLOWSERVE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (AMOUNTS IN THOUSANDS) | |
| CASH FLOWS -- OPERATING ACTIVITIES: | | |
| Net earnings | $ 24,499 | $ 18,877 |
| Adjustments to reconcile net earnings to net cash (used) provided by operating activities: | | |
| Depreciation | 16,474 | 19,187 |
| Amortization | 3,902 | 2,008 |
| Net (Gain) Loss on the sale of fixed assets | (148) | 55 |
| Change in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (7,773) | 757 |
| Inventories | (19,651) | 12,570 |
| Prepaid expenses | 9,191 | 925 |
| Other assets | (6,935) | (1,148) |
| Accounts payable | (6,537) | (7,485) |
| Accrued liabilities | (30,946) | (12,140) |
| Income taxes | 5,071 | (7,794) |
| Postretirement benefits and deferred items | 6,773 | (3,636) |
| Net deferred taxes | (474) | (31) |

| | | |
|---|---|---|
| Net cash flows (used) provided by operating activities..... | (6,554) | 22,145 |
| CASH FLOWS -- INVESTING ACTIVITIES: | | |
| Capital expenditures, net of disposals..... | (12,434) | (20,201) |
| Payment for acquisitions, net of cash acquired..... | (21,703) | -- |
| Net cash flows used by investing activities..... | (34,137) | (20,201) |
| CASH FLOWS -- FINANCING ACTIVITIES: | | |
| Net (repayments) borrowings under short-term debt..... | (3,079) | 729 |
| Payments on long-term debt including revolving credit facility..... | (96,405) | (9,256) |
| Proceeds from long-term debt including revolving credit facility..... | 125,134 | 11,890 |
| Treasury share purchases..... | -- | (3,333) |
| Other stock activity..... | 239 | (679) |
| Dividends paid..... | -- | (10,575) |
| Net cash flows provided (used) by financing activities..... | 25,889 | (11,224) |
| Effect of exchange rate changes..... | (1,166) | (952) |
| Net change in cash and cash equivalents..... | (15,968) | (10,232) |
| Cash and cash equivalents at beginning of year..... | 30,463 | 24,928 |
| Cash and cash equivalents at end of period..... | $ 14,495 | $ 14,696 |
| Taxes paid..... | $ 8,205 | $ 17,905 |
| Interest paid..... | $ 12,107 | $ 8,276 |

See accompanying notes to consolidated financial statements.



FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

1. ACCOUNTING POLICIES -- BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of June 30, 2000, and the related consolidated statements of income and comprehensive income for the three months and six months ended June 30, 2000 and 1999, and the statements of cash flows for the six months ended June 30, 2000 and 1999, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 1999 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year.

2. INVENTORIES

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

Inventories and the method of determining costs were:

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| Raw materials..... | $ 31,839 | $ 29,674 |
| Work in process and finished goods..... | 230,810 | 182,493 |
| Less: Progress billings..... | (14,213) | (5,746) |
| | 248,436 | 206,421 |

| | | |
|---|---|---|
| LIFO reserve | (37,819) | (38,065) |
| Net inventory | $210,617 | $168,356 |
| Percent of inventory accounted for by LIFO | 62% | 64% |
| Percent of inventory accounted for by FIFO | 38% | 36% |

3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 1999, the Financial Accounting Standards Board issued one Statement of Financial Accounting Standard (SFAS) that was applicable to the Company -- SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000. In June 2000, in conjunction with this standard, the Board also issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 138 amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities which have caused implementation difficulties. These standards are not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

In addition, in December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. This SAB does not change any of the existing rules on revenue recognition. Rather, the SAB provides additional guidance for transactions not addressed by existing rules. The Company is required to review its revenue recognition policies by the fourth quarter of fiscal year 2000 to determine that its recognition criteria is in compliance with the SAB interpretations. Any change in accounting principle required in order to comply with the SAB may be reported as a cumulative catch-up adjustment at that time. The Company is currently



reviewing its revenue recognition policies and does not feel that any change in accounting required would have a material impact Flowserve's reported financial position, results of operations or cash flows.

4. RESTRUCTURING

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15,860 recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations, as well as at other locations that are part of the restructuring.

The restructuring program is expected to result in a net reduction of approximately 300 employees at a cost of $12,900. In addition, exit costs associated with the facilities closings are estimated at $2,960. As of June 30, 2000, the program had resulted in a net reduction of 149 employees.

Expenditures charged to the 1999 restructuring reserve were:

| | SEVERANCE | OTHER EXIT COSTS | TOTAL |
|---|---|---|---|
| Balance at December 24, 1999 | $12,900 | $ 2,960 | $15,860 |
| Cash expenditures | (102) | -- | (102) |
| Balance at December 31, 1999 | 12,798 | 2,960 | 15,758 |
| Cash expenditures | (1,693) | (583) | (2,276) |
| Balance at March 31, 2000 | 11,105 | 2,377 | 13,482 |
| Cash expenditures | (1,311) | (1,013) | (2,324) |

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | | | |
|---|---|---|---|
| Balance at June 30, 2000..... | $ 9,794 | $ 1,364 | $11,158 |

5. ACQUISITION

On January 13, 2000, the Company acquired Innovative Valve Technologies, Inc. (Invatec), a company which is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The transaction was accounted for under the purchase method of accounting and was financed by utilizing funds from the Company's working capital. The results of operations for Invatec are included in the Company's condensed consolidated financial statements from the date of acquisition. The purchase price was approximately $18.3 million in cash. Liabilities of $94.9 million were simultaneously paid off through borrowings under Flowserve's revolving credit agreement.

The purchase price has been allocated to the net assets acquired based primarily on information furnished by management of the acquired company.

The following unaudited pro forma information presents the consolidated results of operations as if the acquisition occurred on January 1, 1999, after giving effect to certain adjustments, including, goodwill amortization, interest and related income tax effects. The pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions or events occurred on the dates specified, or to project the Company's results of operations for any future period. Pro forma information has not been presented for 2000 as results prior to the acquisition, (January 1, 2000 to January 12, 2000), are not material.



PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1999

| | HISTORICAL | | | |
|---|---|---|---|---|
| | FLOWSERVE CORP. | INNOVATIVE VALVE TECHNOLOGIES | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED COMPANY |
| | (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | |
| Net Sales..... | $544,583 | $87,103 | $ -- | $631,686 |
| Cost of Sales..... | 353,903 | 60,902 | -- | 414,805 |
| Gross Profit..... | 190,680 | 26,201 | -- | 216,881 |
| Selling and administrative expense..... | 133,314 | 22,062 | (28)(a) | 155,348 |
| Research, engineering and development expense..... | 13,199 | -- | -- | 13,199 |
| Merger integration expense..... | 7,838 | -- | -- | 7,838 |
| Operating Income..... | 36,329 | 4,139 | 28 | 40,496 |
| Interest expense..... | 7,203 | 6,197 | (3,464)(b) | 9,936 |
| Loss on assets held for sale..... | -- | 3,810 | | 3,810 |
| Other expense (income), net..... | 525 | (60) | -- | 465 |
| Earnings before income taxes..... | 28,601 | (5,808) | 3,492 | 26,285 |
| Provision for income taxes..... | 9,724 | (547) | (109)(c) | 9,068 |
| Net income (loss)..... | $ 18,877 | $(5,261) | $ 3,601 | $ 17,217 |
| Earnings per share (basic and diluted)..... | $ 0.50 | $ -- | $ -- | $ 0.46 |
| Weighted average shares outstanding (basic and | | | | |

| | | | | |
|---|---|---|---|---|
| diluted) | 37,771 | 9,665 | -- | 37,771 |

PRO FORMA ADJUSTMENTS

Selling and administrative expense:
(a) Represents incremental decrease in annual goodwill amortization based on decrease of $4,279 in estimated goodwill originating from the acquisition and the reduction of the amortization period from 40 to 20 years ..... (28)

Interest expense:
(b) Represents reduction in consolidated interest expense related to debt financing prior to the acquisition date ..... (3,464)

Provision for income taxes:
(c) Represents income tax adjustment required to arrive at a combined company pro forma effective tax rate of 34.5% ..... (109)

6. SEGMENT INFORMATION

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



Amounts classified as All Other include Corporate Headquarters costs and other minor entities that are not considered separate segments. The Company evaluates segment performance and allocates resources based on profit or loss excluding merger integration, interest expense, other income or expense and income taxes. Intersegment sales and transfers are recorded at cost plus a profit margin. Minor reclassifications have been made to certain previously reported information to conform to the current business configuration.

| SIX MONTHS ENDED JUNE 30, 2000 | ROTATING EQUIPMENT | FLOW CONTROL | FLOW SOLUTIONS | ALL OTHER | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Sales to external customers | $152,854 | $129,754 | $298,732 | $ 3,122 | $584,462 |
| Intersegment sales | 2,891 | 5,448 | 9,700 | (18,039) | -- |
| Segment operating income | 10,108 | 16,195 | 35,350 | (13,834) | 47,819 |
| Identifiable assets | $238,745 | $210,143 | $428,899 | $ 84,289 | $962,076 |

| SIX MONTHS ENDED JUNE 30, 1999 | ROTATING EQUIPMENT | FLOW CONTROL | FLOW SOLUTIONS | ALL OTHER | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Sales to external customers | $187,077 | $143,694 | $210,341 | $ 3,471 | $544,583 |
| Intersegment sales | 2,632 | 7,998 | 7,573 | (18,203) | -- |
| Segment operating income (before special items) | 11,548 | 15,094 | 27,945 | (10,420) | 44,167 |
| Identifiable assets | $248,850 | $212,684 | $271,506 | $111,968 | $845,008 |

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

Reconciliation of the total segment operating income before special items to consolidated earnings before income taxes follows:

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| Total segment operating income (before special items)..... | $61,653 | $54,587 |
| Corporate expenses and other..... | 13,834 | 10,420 |
| Merger integration expense..... | -- | 7,838 |
| Interest expense..... | 13,576 | 7,203 |
| Other (income) expense..... | (3,161) | 525 |
| Earnings before income taxes..... | $37,404 | $28,601 |

7. SUBSEQUENT EVENT

On November 18, 1999, the Company announced that it had signed a definitive agreement to acquire all outstanding stock of Innovative Valve Technologies, Inc. (Invatec) for $1.62 per share, or about $15.7 million. In addition, the Company would assume Invatec's projected debt and related obligations of about $84.0 million, plus certain transaction-related expenses. Invatec, headquartered in Houston, Texas, had unaudited 1999 net revenues of $161.0 million and is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers. On January 6, 2000, the Company's offer to purchase all outstanding shares of common stock expired with approximately 92.3% of the total outstanding shares tendered. The Company then implemented a statutory merger of Invatec and acquired all of the remaining outstanding shares.





On February 9, 2000, the Company announced that it had signed a definitive agreement to acquire Ingersoll-Dresser Pump Company (IDP) for $775 million in cash. The Acquisition closed August 8, 2000. IDP is a wholly owned business unit of Ingersoll-Rand Company and recorded 1999 sales of $838.0 million and operating income of $62.4 million after special items. The transaction was accounted for as a purchase and was financed with a combination of bank financing and senior subordinated notes. Flowserve received $1,425 million of financing in connection with the acquisition and repaid its existing indebtedness at the date of the acquisition. In connection with the acquisition, the Company announced that it would be closing certain operating facilities and reducing its workforce.

8. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

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

The following condensed consolidating financial information presents:

(1) Condensed consolidating balance sheets as of June 30, 2000 and December 31, 1999 and the related statements of income and cash flows for the six months ended June 30, 2000 and 1999, of (a) Flowserve Corporation, the parent; (b) the guarantor subsidiaries; (c) the nonguarantor subsidiaries; and the Company on a consolidated basis, and

(2) Elimination entries necessary to consolidate Flowserve Corporation, the parent, with guarantor and nonguarantor subsidiaries.

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





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2000

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | | | |
| Sales | $ 83,031 | $336,255 | $207,945 | $(42,769) | $584,462 |
| Cost of sales | 53,698 | 234,367 | 136,774 | (42,769) | 382,070 |
| Gross Profit | 29,333 | 101,888 | 71,171 | -- | 202,392 |
| Selling and administrative expense | 23,918 | 74,485 | 43,817 | -- | 142,220 |
| Research, engineering and development expense | 3,099 | 7,423 | 1,831 | -- | 12,353 |
| Operating income | 2,316 | 19,980 | 25,523 | -- | 47,819 |
| Interest expense | 96 | 13,224 | 1,326 | (1,070) | 13,576 |
| Other income, net | (3,584) | (5,153) | 4,506 | 1,070 | (3,161) |
| Equity in (earnings) loss of subsidiaries | (20,181) | -- | -- | 20,181 | -- |
| Earnings before income taxes | 25,985 | 11,909 | 19,691 | (20,181) | 37,404 |
| Provision for income taxes | 1,486 | 4,716 | 6,703 | -- | 12,905 |
| Net earnings | $ 24,499 | $ 7,193 | $ 12,988 | $(20,181) | $ 24,499 |





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1999

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Sales | $ 74,020 | $275,287 | $236,641 | $(41,365) | $544,583 |
| Cost of sales | 53,454 | 183,600 | 158,214 | (41,365) | 353,903 |
| Gross Profit | 20,566 | 91,687 | 78,427 | -- | 190,680 |
| Selling and administrative expense | 30,415 | 54,956 | 47,943 | -- | 133,314 |
| Research, engineering and development expense | 2,443 | 8,865 | 1,891 | -- | 13,199 |
| Merger integration expense | -- | 6,767 | 1,071 | -- | 7,838 |
| Operating income | (12,292) | 21,099 | 27,522 | -- | 36,329 |
| Interest expense | 1,079 | 5,309 | 1,420 | (605) | 7,203 |
| Other income, net | (1,005) | (3,098) | 4,023 | 605 | 525 |
| Equity in (earnings) loss of subsidiaries | (26,003) | -- | -- | 26,003 | -- |
| Earnings before income taxes | 13,637 | 18,888 | 22,079 | (26,003) | 28,601 |
| Provision for income taxes | (5,240) | 7,053 | 7,911 | -- | 9,724 |
| Net earnings | $ 18,877 | $ 11,835 | $ 14,168 | $(26,003) | $ 18,877 |





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED BALANCE SHEETS
FOR THE PERIOD ENDED JUNE 30, 2000

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| | | | (AMOUNTS IN THOUSANDS) | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ -- | $ -- | $ 25,457 | $ (10,962) | $ 14,495 |
| Inter-company receivables | -- | 33,151 | 10,622 | (43,773) | -- |
| Accounts receivable, net | 22,804 | 121,924 | 101,603 | -- | 246,331 |
| Inventories | 13,921 | 125,905 | 70,791 | -- | 210,617 |
| Prepaids and other current assets | 12,594 | 16,549 | 7,951 | -- | 37,094 |
| Total current assets | 49,319 | 297,529 | 216,424 | (54,735) | 508,537 |
| Property, plant and equipment, net | 35,682 | 130,804 | 54,850 | -- | 221,336 |
| Investment in subsidiaries | 409,796 | 241,677 | -- | (651,473) | -- |
| Inter-company receivables | 118,065 | 224,678 | 14,784 | (357,527) | -- |
| Intangible assets, net | 7,994 | 88,347 | 55,011 | -- | 151,352 |
| Other assets | 30,615 | 47,947 | 2,289 | -- | 80,851 |
| Total assets | $651,471 | $1,030,982 | $ 343,358 | $(1,063,735) | $962,076 |
| Current liabilities: | | | | | |
| Accounts payable | $ 4,831 | $ 49,727 | $ 33,207 | $ (10,963) | $ 76,802 |
| Inter-company payables | 18,574 | 2,325 | 22,873 | (43,772) | -- |
| Notes payable | 15 | 473 | 43 | -- | 531 |
| Income taxes | 19 | 4,842 | 4,043 | -- | 8,904 |
| Accrued Liabilities | 13,408 | 53,522 | 30,027 | -- | 96,957 |
| Long-term debt due within one year | -- | -- | 44 | -- | 44 |
| Total current liabilities | 36,847 | 110,889 | 90,237 | (54,735) | 183,238 |
| Long-term debt due after one year | 90 | 313,009 | 2,249 | -- | 315,348 |
| Inter-company payables | 250,625 | 21,645 | 85,256 | (357,526) | -- |
| Post-retirement benefits and deferred items | 47,382 | 81,972 | 17,609 | -- | 146,963 |
| Shareholders' equity: | | | | | |
| Serial preferred stock, $1.00 par value | -- | -- | -- | -- | -- |
| Common shares, $1.25 par value | 51,856 | 1 | 84,463 | (84,464) | 51,856 |
| Capital in excess of par value | 67,697 | 185,423 | 81,438 | (266,861) | 67,697 |

| | | | | | |
|---|---|---|---|---|---|
| Retained earnings | 368,754 | 361,918 | 52,158 | (414,076) | 368,754 |
| | 488,307 | 547,342 | 218,059 | (765,401) | 488,307 |
| Treasury stock at cost | (93,226) | (612) | -- | 612 | (93,226) |
| Accumulated other comprehensive income | (78,554) | (43,263) | (70,052) | 113,315 | (78,554) |
| Total shareholders' equity | 316,527 | 503,467 | 148,007 | (651,474) | 316,527 |
| Total liabilities and shareholders' equity | $651,471 | $1,030,982 | $ 343,358 | $(1,063,735) | $962,076 |





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED DECEMBER 31, 1999

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ -- | $ 889 | $ 29,966 | $ (392) | $ 30,463 |
| Inter-company receivables | 194,594 | 930 | 7,640 | (203,164) | -- |
| Accounts receivable, net | 16,702 | 94,639 | 102,284 | -- | 213,625 |
| Inventories | 17,811 | 76,580 | 73,965 | -- | 168,356 |
| Prepaids and other current assets | -- | 34,639 | 11,733 | (5,028) | 41,344 |
| Total current assets | 229,107 | 207,677 | 225,588 | (208,584) | 453,788 |
| Property, plant and equipment, net | 33,223 | 118,356 | 58,397 | -- | 209,976 |
| Investment in subsidiaries | 403,643 | 273,430 | -- | (677,073) | -- |
| Inter-company receivables | 60,432 | 209,138 | 20,674 | (290,244) | -- |
| Intangible assets, net | 2,744 | 39,045 | 54,646 | -- | 96,435 |
| Other assets | 40,954 | 35,175 | 1,823 | -- | 77,952 |
| Total assets | $770,103 | $882,821 | $361,128 | $(1,175,901) | $838,151 |
| Current liabilities: | | | | | |
| Accounts payable | $ 12,481 | $ 31,659 | $ 32,164 | $ (4,201) | $ 72,103 |
| Inter-company payables | 159,578 | 21,494 | 22,092 | (203,164) | -- |
| Notes payable | 734 | -- | -- | -- | 734 |
| Income taxes | 3,592 | -- | 5,505 | (1,219) | 7,878 |
| Accrued liabilities | 11,813 | 64,963 | 35,044 | -- | 111,820 |
| Long-term debt due within one year | 870 | 387 | 1,868 | -- | 3,125 |
| Total current liabilities | 189,068 | 118,503 | 96,673 | (208,584) | 195,660 |
| Long-term debt due after one year | 4,610 | 190,000 | 3,400 | -- | 198,010 |
| Total Inter-company loans payable | 233,473 | 16,479 | 40,292 | (290,244) | -- |
| Post-retirement benefits and deferred items | 34,678 | 86,640 | 14,889 | -- | 136,207 |
| Shareholder's Equity: | | | | | |
| Serial preferred stock, $1.00 par value | -- | -- | -- | -- | -- |
| Common shares, $1.25 par value | 51,856 | 1 | 71,933 | (71,934) | 51,856 |
| Capital in excess of par value | 67,963 | 168,495 | 91,238 | (259,733) | 67,963 |
| Retained earnings | 344,254 | 357,605 | 46,468 | (404,073) | 344,254 |
| | 464,073 | 526,101 | 209,639 | (735,740) | 464,073 |
| Treasury stock at cost | (93,448) | (612) | 1,837 | (1,225) | (93,448) |
| Accumulated other comprehensive | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| income | (62,351) | (54,290) | (5,602) | 59,892 | (62,351) |
| Total shareholders' equity | 308,274 | 471,199 | 205,874 | (677,073) | 308,274 |
| Total liabilities and shareholders' equity | $770,103 | $882,821 | $361,128 | $(1,175,901) | $838,151 |





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2000

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| | | | (AMOUNTS IN THOUSANDS) | | |
| CASH FLOWS -- OPERATING ACTIVITIES: | | | | | |
| Net earnings | $ 24,499 | $ 7,193 | $ 12,988 | $(20,181) | $ 24,499 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | | | |
| Depreciation | 3,193 | 8,669 | 4,612 | -- | 16,474 |
| Amortization | 220 | 2,536 | 1,146 | -- | 3,902 |
| Loss on sale of fixed assets | -- | 4 | (152) | -- | (148) |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | | | |
| Accounts Receivable | (6,102) | 2,656 | (4,327) | -- | (7,773) |
| Inventories | 3,891 | (22,846) | (696) | -- | (19,651) |
| Intercompany receivable and payables | 6,956 | (30,011) | 48,655 | (25,600) | -- |
| Prepaid expenses | (12,594) | 22,974 | 3,839 | (5,028) | 9,191 |
| Other assets | 5,309 | 133 | (12,377) | -- | (6,935) |
| Accounts payable | (7,650) | 5,084 | 2,790 | (6,761) | (6,537) |
| Accrued liabilities | 1,595 | (28,844) | (3,697) | -- | (30,946) |
| Income taxes | (3,573) | 4,643 | 2,782 | 1,219 | 5,071 |
| Post-retirement benefits and deferred items | 12,705 | (5,357) | (575) | -- | 6,773 |
| Net deferred taxes | -- | (973) | 499 | -- | (474) |
| Net cash provided by operating activities | 28,449 | (34,139) | 55,487 | (56,351) | (6,554) |
| CASH FLOWS -- INVESTING ACTIVITIES: | | | | | |
| Capital expenditures, net of disposals | (5,651) | (2,908) | (3,875) | -- | (12,434) |
| Payments for acquisitions, net of cash acquired | (21,703) | -- | -- | -- | (21,703) |
| Net cash flows used in investing activities | (27,354) | (2,908) | (3,875) | -- | (34,137) |
| CASH FLOWS -- FINANCING ACTIVITIES: | | | | | |
| Net repayments under lines of credit | (1,589) | 86 | (1,576) | -- | (3,079) |
| Payments on long-term debt | (4,520) | (88,716) | (3,169) | -- | (96,405) |
| Proceeds from long-term debt | -- | 123,009 | 2,125 | -- | 125,134 |
| Proceeds from issuance of common stock | 239 | 2,370 | (2,370) | -- | 239 |
| Dividends paid | -- | 286 | (286) | -- | -- |
| Other | (13,063) | (11,905) | (20,813) | 45,781 | -- |
| Net cash flows used by financing activities | (18,933) | 25,130 | (26,089) | 45,781 | 25,889 |
| Effect of exchange rate changes | 17,838 | 11,028 | (30,032) | -- | (1,166) |
| Net change in cash and cash equivalents | -- | (889) | (4,509) | (10,570) | (15,968) |
| Cash and cash equivalents at beginning of year | -- | 889 | 29,966 | (392) | 30,463 |
| Cash and cash equivalents at end of period | $ -- | $ -- | $ 25,457 | $(10,962) | $ 14,495 |





FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1999

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|---|
| | | | (AMOUNTS IN THOUSANDS) | | |
| CASH FLOWS -- OPERATING ACTIVITIES: | | | | | |
| Net earnings | $ 18,877 | $ 11,835 | $ 14,168 | $(26,003) | $ 18,877 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | | | |
| Depreciation | 2,567 | 8,111 | 8,509 | -- | 19,187 |
| Amortization | 215 | 1,393 | 400 | -- | 2,008 |
| Loss on sale of fixed assets | -- | (104) | 159 | -- | 55 |
| Change in operating assets and liabilities, net of effects of acquisitions and dispositions: | | | | | |
| Accounts Receivable | (2,745) | 15,320 | (11,818) | -- | 757 |
| Inventories | 6,217 | 9,522 | (3,169) | -- | 12,570 |
| Intercompany receivable and payables | 25,588 | (70,556) | 3,590 | 41,378 | -- |
| Prepaid expenses | 23,380 | (385) | (1,611) | (20,459) | 925 |
| Other assets | 20,006 | (19,509) | (1,645) | -- | (1,148) |
| Accounts payable | (857) | (7,785) | (888) | 2,045 | (7,485) |
| Accrued liabilities | (11,740) | 2,281 | (2,681) | -- | (12,140) |
| Income taxes | 403 | (26,973) | (1,683) | 20,459 | (7,794) |
| Post-retirement benefits and deferred items | (42,989) | 40,537 | (1,184) | -- | (3,636) |
| Net deferred taxes | (6,622) | 6,197 | 394 | -- | (31) |
| Net cash provided by operating activities | 32,300 | (30,116) | 2,541 | 17,420 | 22,145 |
| CASH FLOWS -- INVESTING ACTIVITIES: | | | | | |
| Capital expenditures, net of disposals | (4,101) | (10,547) | (5,553) | -- | (20,201) |
| Net cash flows used in investing activities | (4,101) | (10,547) | (5,553) | -- | (20,201) |
| CASH FLOWS -- FINANCING ACTIVITIES: | | | | | |
| Net repayments under lines of credit | (64) | 2,552 | (1,759) | -- | 729 |
| Payments on long-term debt | (9,256) | -- | -- | -- | (9,256) |
| Proceeds from long-term debt | -- | 15,922 | (4,032) | -- | 11,890 |
| Repurchase of common stock | (3,333) | (1,225) | 1,225 | -- | (3,333) |
| Proceeds from issuance of common stock | (679) | -- | -- | -- | (679) |
| Dividends paid | (10,575) | -- | -- | -- | (10,575) |
| Other | (301) | 23,681 | (8,005) | (15,375) | -- |
| Net cash flows used by financing activities | (24,208) | 40,930 | (12,571) | (15,375) | (11,224) |
| Effect of exchange rate changes | (3,876) | (267) | 3,191 | -- | (952) |
| Net change in cash and cash equivalents | 115 | -- | (12,392) | 2,045 | (10,232) |
| Cash and cash equivalents at beginning of year | -- | -- | 31,062 | (6,134) | 24,928 |
| Cash and cash equivalents at end of period | $ 115 | $ -- | $ 18,670 | $ (4,089) | $ 14,696 |

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Innovative Valve Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Innovative Valve Technologies, Inc., (a Delaware corporation) and subsidiaries (collectively, the "Company"), as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innovative Valve Technologies, Inc. and subsidiaries, as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
March 3, 2000



INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

| | DECEMBER 31 | |
|---|---|---|
| | 1998 | 1999 |
| CURRENT ASSETS: | | |
| Cash | $ -- | $ 951,060 |
| Accounts receivable, net of allowance of $1,562,104 and $2,178,511 | 29,524,687 | 28,921,174 |
| Inventories, net | 26,007,804 | 26,091,730 |
| Prepaid expenses and other current assets | 2,476,351 | 3,229,498 |
| Deferred tax asset | 4,481,256 | 1,473,849 |
| Total current assets | 62,490,098 | 60,667,311 |
| PROPERTY AND EQUIPMENT, net | 19,469,804 | 18,212,576 |
| GOODWILL, net | 96,175,294 | 52,497,739 |
| PATENT COSTS, net | 490,552 | 426,160 |
| OTHER NONCURRENT ASSETS, net | 5,074,090 | 454,640 |
| | $183,699,838 | $132,258,426 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | $ 580,140 | $ 633,754 |
| Credit facility | -- | 76,304,741 |
| Convertible subordinated debt | -- | 11,668,875 |

| | | |
|---|---|---|
| Accounts payable and accrued expenses | 19,364,587 | 21,037,808 |
| Makeup amount obligation | -- | 5,616,105 |
| Total current liabilities | 19,944,727 | 115,261,283 |
| CREDIT FACILITY | 70,570,584 | -- |
| LONG-TERM DEBT, net of current maturities | 400,834 | -- |
| CONVERTIBLE SUBORDINATED DEBT | 11,668,875 | -- |
| OTHER LONG-TERM LIABILITIES | 1,909,774 | 440,554 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $0.001 par value, 30,000,000 shares authorized, 9,664,562 and 10,220,117 issued and outstanding | 9,665 | 10,220 |
| Additional paid-in capital | 90,960,972 | 85,450,413 |
| Retained deficit | (11,765,593) | (68,904,044) |
| Total stockholders' equity | 79,205,044 | 16,556,589 |
| | $183,699,838 | $132,258,426 |

The accompanying notes are an integral part of these consolidated financial statements.



INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| REVENUES | $58,620,946 | $154,616,945 | $160,991,139 |
| COST OF OPERATIONS | 40,987,435 | 107,568,111 | 115,956,154 |
| Gross profit | 17,633,511 | 47,048,834 | 45,034,985 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 15,638,815 | 40,479,744 | 40,367,906 |
| SPECIAL COMPENSATION EXPENSE | 7,613,386 | -- | -- |
| NONRECURRING COSTS | -- | 2,189,599 | -- |
| Income (loss) from operations | (5,618,690) | 4,379,491 | 4,667,079 |
| OTHER INCOME (EXPENSE): | | | |
| Interest income (expense), net | (2,901,039) | (5,621,182) | (12,724,071) |
| Loss on assets held for sale | -- | -- | (3,809,712) |
| Impairment of goodwill | -- | -- | (39,073,380) |
| Other | (2,957) | 246,654 | 174,003 |
| | (2,903,996) | (5,374,528) | (55,433,160) |
| LOSS BEFORE INCOME TAX | (8,522,686) | (995,037) | (50,766,081) |
| PROVISION (BENEFIT) FOR INCOME TAX | (1,022,722) | 419,936 | 6,372,370 |
| NET LOSS | $(7,499,964) | $ (1,414,973) | $(57,138,451) |
| NET LOSS BEFORE DIVIDENDS APPLICABLE TO PREFERRED STOCK | $(7,499,964) | $ (1,414,973) | $(57,138,451) |
| PREFERRED STOCK DIVIDENDS | (156,957) | -- | -- |
| NET LOSS APPLICABLE TO COMMON SHARES | $(7,656,921) | $ (1,414,973) | $(57,138,451) |
| Loss per share: | | | |
| Basic and Diluted | $ (2.25) | $ (0.16) | $ (5.90) |
| Weighted average common shares outstanding -- Basic and Diluted | 3,397,980 | 9,024,915 | 9,691,959 |

The accompanying notes are an integral part of these consolidated financial statements.

INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

| | COMMON STOCK | | ADDITIONAL PAID-IN | RETAINED | |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | DEFICIT | TOTAL |
| BALANCE, December 31, 1996..... | 1,481,919 | $ 1,482 | $ 1,298,471 | $ (2,693,699) | $ (1,393,746) |
| SSI preferred stock dividends..... | -- | -- | -- | (156,957) | (156,957) |
| Issuance of SSI common stock... | 222,650 | 223 | 2,604,782 | -- | 2,605,005 |
| Exercise of SSI common stock warrant and options..... | 714,769 | 715 | 4,554,141 | -- | 4,554,856 |
| Issuance of common stock to certain executives..... | 242,839 | 243 | 5,008,675 | -- | 5,008,918 |
| Public offering, net of offering costs..... | 3,852,500 | 3,853 | 44,018,053 | -- | 44,021,906 |
| Issuances of common stock in acquisitions..... | 185,661 | 185 | 2,129,794 | -- | 2,129,979 |
| Redemption of SSI redeemable preferred stock and payment of indebtedness to Philip... | 1,189,860 | 1,189 | 10,598,119 | -- | 10,599,308 |
| Net loss..... | -- | -- | -- | (7,499,964) | (7,499,964) |
| BALANCE, December 31, 1997..... | 7,890,198 | 7,890 | 70,212,035 | (10,350,620) | 59,869,305 |
| Issuances of common stock in acquisitions..... | 1,749,052 | 1,749 | 20,483,297 | -- | 20,485,046 |
| Exercise of stock options..... | 25,312 | 26 | 265,640 | -- | 265,666 |
| Net loss..... | -- | -- | -- | (1,414,973) | (1,414,973) |
| BALANCE, December 31, 1998..... | 9,664,562 | 9,665 | 90,960,972 | (11,765,593) | 79,205,044 |
| Makeup amount obligation..... | -- | -- | (6,516,104) | -- | (6,516,104) |
| Warrants issued to the syndicate of lenders..... | -- | -- | 106,101 | -- | 106,101 |
| Issuances of stock in partial payment of makeup obligation..... | 555,555 | 555 | 899,444 | -- | 899,999 |
| Net loss..... | -- | -- | -- | (57,138,451) | (57,138,451) |
| BALANCE, December 31, 1999..... | 10,220,117 | $10,220 | $85,450,413 | $(68,904,044) | $ 16,556,589 |

The accompanying notes are an integral part of these consolidated financial statements.



INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss..... | $ (7,499,964) | $ (1,414,973) | $(57,138,451) |
| Adjustments to reconcile net loss to net cash used in operating activities -- | | | |
| Depreciation and amortization..... | 1,235,940 | 4,321,854 | 4,851,098 |
| Deferred taxes..... | 4,982,917 | (1,690,870) | 6,019,892 |
| Special compensation expense..... | 7,613,386 | -- | -- |
| Nonrecurring costs..... | -- | 1,989,599 | -- |
| Loss on assets held for sale..... | -- | -- | 3,809,712 |

| | | | |
|---|---|---|---|
| Impairment of goodwill | -- | -- | 39,073,380 |
| Gain on sale of property and equipment | -- | (18,345) | (18,233) |
| (Increase) decrease in -- | | | |
| Accounts receivable | (1,219,537) | (3,600,442) | 712,993 |
| Inventories, net | (4,187,410) | (4,485,014) | (2,299,053) |
| Prepaid expenses and other current assets | 424,535 | (755,654) | (1,386,958) |
| Other noncurrent assets, net | 1,141,616 | (1,208,550) | 527,218 |
| Increase (decrease) -- | | | |
| Accounts payable and accrued expenses | (2,806,726) | (5,518,177) | 2,886,275 |
| Net cash used in operating activities | (315,243) | (12,380,572) | (2,962,127) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Additions to property and equipment | (1,062,366) | (4,707,457) | (2,391,516) |
| Proceeds from sale of property and equipment | 17,137 | 168,619 | 957,762 |
| Business acquisitions, net of cash acquired of $499,436, $818,416 and $ -- | (51,555,833) | (39,438,029) | -- |
| Net cash used in investing activities | (52,601,062) | (43,976,867) | (1,433,754) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Borrowings of debt | 29,348,272 | 209,425 | -- |
| Repayments of debt | (27,981,507) | (5,209,853) | (366,316) |
| Net borrowings under Credit Facility | 11,750,000 | 58,820,584 | 5,734,157 |
| Repayments of convertible subordinated debt | -- | (81,396) | -- |
| Payments on non-compete obligations | (152,662) | (134,268) | (20,900) |
| Repayment of debt of Philip | (2,981,789) | -- | -- |
| Proceeds from sale/exercise of SSI common stock warrant | 1,216,855 | -- | -- |
| Proceeds from exercise of Invatec stock options | -- | 208,497 | |
| Proceeds from sale of common stock, net of offering costs | 44,021,906 | -- | -- |
| Preferred stock dividends | (156,957) | -- | -- |
| Net cash provided by financing activities | 55,064,118 | 53,812,989 | 5,346,941 |
| NET INCREASE (DECREASE) IN CASH | 2,147,813 | (2,544,450) | 951,060 |
| CASH, beginning of period | 396,637 | 2,544,450 | -- |
| CASH, end of period | $ 2,544,450 | $ -- | $ 951,060 |

The accompanying notes are an integral part of these consolidated financial statements.



INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Innovative Valve Technologies, Inc. ("Invatec" or the "Company") was incorporated in Delaware in March 1997 to create the leading single-source provider of comprehensive maintenance, repair, replacement and value-added distribution services for industrial valves and related process-system components throughout North America. Except for its purchase of Steam Supply & Rubber Co., Inc. and three related entities (collectively, "Steam Supply") in July 1997, Invatec conducted no operations of its own prior to the closing on October 28, 1997 of (i) its initial public offering (the "IPO") of its common stock, par value $.001 per share ("Common Stock"), (ii) its purchase of Industrial Controls & Equipment, Inc. and three related entities (collectively, "ICE/VARCO") and Southern Valve Services, Inc. and a related entity (collectively, "SVS") and (iii) a merger (the "SSI Merger") in which The Safe Seal Company, Inc. ("SSI") became its subsidiary. Earlier in 1997, SSI had purchased Harley Industries, Inc. ("Harley"), GSV, Inc. ("GSV") and Plant Specialities, Inc. ("PSI"). SSI and its subsidiaries were affiliates of Invatec prior to the SSI Merger. Subsequent to the IPO, Invatec has acquired thirteen businesses.

RECENT DEVELOPMENTS

The Company's customers consist primarily of petroleum refining, chemical, petrochemical, power and pulp and paper plants, the businesses of which tend to be cyclical. Margins in those industries are highly sensitive to demand cycles and the Company's customers in those industries have historically tended to delay capital projects, expensive turnarounds and other maintenance projects during slow periods. Commencing with the second quarter of 1998 and continuing through 1999, the Company's business was negatively impacted by significant slowdowns experienced by its customers in the petroleum refining, petrochemical, chemical, and pulp and paper industries.

As a result of the above-described downturns affecting the Company's customers, the Company's level of business declined during 1998 and 1999 and the Company's earnings for the last three quarters of 1998 fell significantly short of expectations. Consequently, this decline in earnings resulted in a severe reduction in the market price of the Company's Common Stock. Declining earnings also ultimately resulted in the Company defaulting on its credit facility (the "Old Credit Facility") as a result of failing to meet certain financial covenants which required specific levels of earnings in relation to debt. This default left the Company unable to borrow funds for acquisitions. The Company remained in default under the Old Credit Facility from July 20, 1998 through March 25, 1999. The Company's acquisition program has been effectively suspended since July 1998 as a result of the low price of the Company's common stock and its inability to borrow funds under the Old Credit Facility. See further discussion of the Company's Credit Facility at Footnote 6.

The Company amended its Old Credit Facility on March 26, 1999 to provide for a new credit facility (the "New Credit Facility") expiring on April 20, 2000 and consisting of a $35 million stationary term component and up to a $45 million revolving line of credit from its existing bank group. The New Credit Facility prohibited the Company from making acquisitions and provided for increasingly high overall borrowing costs. As a result, the Company began working with an investment banking firm in April 1999 to develop a financial restructuring plan for the Company and otherwise explore strategic alternatives. After numerous discussions with private investors regarding an infusion of equity capital and with potential acquirors of the Company regarding a sale of stock or assets of the Company or certain of its subsidiaries, on November 18, 1999, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Flowserve Corporation ("Flowserve") and a wholly-owned subsidiary of Flowserve. Flowserve is a publicly-traded U.S. corporation. The Merger Agreement provided for the acquisition of Invatec for a price of $1.62 per share in cash pursuant to a tender offer (the "Tender Offer") made by the Flowserve subsidiary for all outstanding shares of Invatec Common Stock, par value $.001 per share (the





"Flowserve Transaction"). The Tender Offer commenced on November 22, 1999, and closed on January 6, 2000. See further discussion of the Merger at Footnote 18.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

For financial reporting purposes, SSI is presented as the "accounting acquiror" of Steam Supply, ICE/VARCO, SVS, Harley, GSV and PSI (collectively, the "Initial Acquired Businesses"), and, as used herein, the term "Company" means (i) SSI and its consolidated subsidiaries prior to October 31, 1997 and (ii) Invatec and its consolidated subsidiaries (including SSI) on that date and thereafter.

For accounting purposes, the effective dates of the acquisitions of the Initial Acquired Businesses in 1997 are as follows: (i) Harley -- January 31; (ii) GSV -- February 28; (iii) PSI -- May 31; (iv) Steam Supply -- July 31, and (v) ICE/VARCO and SVS -- October 31. Following the IPO, the Company acquired thirteen businesses (together with the Initial Acquired Businesses, the "Acquired Businesses") in 1997 and 1998. The Company accounted for the Acquired Businesses in accordance with the purchase method of accounting.

The financial statements include the accounts of the Company and its

wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

RECLASSIFICATION

Certain prior year balances have been reclassified to conform with the current year presentation.

INVENTORY

Inventories are valued at the lower of cost or market utilizing the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. The costs of major improvements are capitalized. Expenditures for maintenance, repairs and minor improvements are expensed as incurred. When property and equipment are sold or retired, the cost and related accumulated depreciation are removed and the resulting gain or loss is included in results of operations.

GOODWILL

Goodwill represents the excess of the aggregate purchase price paid by the Company in the acquisition of businesses accounted for as purchases over the fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. Goodwill amortization expense was approximately $467,000, $2,163,000, and $2,466,000 for the years ended December 31, 1997, 1998, and 1999 respectively.

The Company periodically evaluates the recoverability of intangibles resulting from business acquisitions and measures the amount of impairment, if any, by assessing current and future levels of income and cash flows as well as other factors, such as business trends and prospects and market and economic conditions and assuming the acquired business continues to be owned.

During 1998, Company management designed and implemented a restructuring plan to improve the Company's cost structure, streamline operations and divest the Company of underperforming assets. As part of this initiative, management decided to divest a portion of one of its Acquired Businesses that was



incurring significant operating losses. This subsidiary was engaged primarily in the distribution of commodity valve products and related process system components. Management determined that the products distributed by the subsidiary did not fit into its long-term vision of providing high quality repair services and value-added distribution of engineered products. Accordingly, certain assets of this subsidiary were sold effective July 31, 1999. The carrying value of these assets held for sale was reduced to fair value based upon the final negotiated sales price with the buyer, less costs to sell. The resulting adjustment of approximately $3.8 million to reduce assets held for sale to fair value and goodwill related to the assets held for sale was recorded in the June 30, 1999 consolidated statements of operations. The Company applied the proceeds from the sale of the assets to reduce its outstanding balance under the Credit Facility. Pro forma net sales for the operations associated with the impaired assets were approximately $11.3 million, $7.8 million, and $3.1 million in 1997, 1998, and the six month period ended June 30, 1999, respectively. The pro forma operating losses of such operations for the applicable periods were approximately ($0.1) million, ($0.3) million, and ($0.4) million, respectively.

An analysis in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," was performed by comparing the Company's net book value to the price offered in the Tender Offer previously described in Footnote 1. The Tender Offer for all of the outstanding Invatec shares totaled approximately $16.6 million, which is approximately $39.0 million below the Company's historical cost basis in its net assets (total stockholders' equity of $55.6 million as of December 31, 1999, prior to recording the following impact

of the goodwill impairment.) Since the Company's evaluation of other long-lived assets for impairment did not indicate that they were impaired, goodwill has been reduced by approximately $39.0 million. This provision is reflected in the December 31, 1999, consolidated statements of operations. The acquisition of Invatec by Flowserve subsequent to December 31, 1999 (see Footnote 18) was accounted for by Flowserve using the purchase method of accounting, which requires an allocation of the purchase price to the assets acquired and liabilities assumed based on fair value as determined by Flowserve. The Company's consolidated financial statements have been prepared on the historical cost basis of accounting in accordance with generally accepted accounting principles which may be greater or less than the fair value of the assets and liabilities as determined by Flowserve. See Footnote 18 for a description of certain terms, conditions and termination events relating to the Merger.

DEBT ISSUE COSTS

Debt issue costs related to the Company's Credit Facility (see Note 6) are included in other noncurrent assets at December 31, 1998, and in prepaid expenses and other current assets at December 31, 1999, and are amortized to interest expense over the scheduled maturity of the debt. Debt issue costs, net of accumulated amortization were approximately $412,000 and $65,000 at December 31, 1998 and 1999, respectively.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common equivalent shares outstanding.

STOCK-BASED COMPENSATION

In accordance with SFAS No. 123, the Company has elected to use the method APB Opinion No. 25 prescribes to measure its compensation costs attributable to stock-based compensation and to include in Footnote 10 of these consolidated financial statements the pro forma effect on those costs using the fair value approach that SFAS No. 123 otherwise requires.



INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with SFAS No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

Prior to the Acquisitions, certain Acquired Businesses' stockholders were taxed under the provisions of subchapter S of the Internal Revenue Code. Under these provisions, the stockholders paid income taxes on their proportionate share of their companies' earnings. Because the stockholders were taxed directly, their businesses paid no federal income tax and only certain state income taxes. The Company filed consolidated federal income tax returns that include the operations of the Acquired Businesses for periods subsequent to their respective acquisition dates.

REVENUE RECOGNITION

Revenue is recognized as products are sold and as services are performed.

CASH FLOW RELATED ITEMS

Cash payments for interest during 1997, 1998 and 1999 were approximately $1,954,000, $4,628,000 and $8,158,000, respectively. Cash payments for taxes during 1997, 1998 and 1999 were $306,000, $1,695,000, and $879,000, respectively. Noncash activities for the year ended December 31, 1997 consisted of approximately $10.6 million of obligations and preferred stock owned by a related party which were converted into Common Stock. Noncash activities for the

year ended December 31, 1998 consisted of approximately $1.2 million reduction of convertible subordinated debt in connection with finalization of the purchase consideration of a 1997 acquisition and the issuance of warrants to the Company's syndicate of lenders. Noncash activities for the year ended December 31, 1999 consisted of the issuance of 555,555 shares of Common Stock to former owners of one of the Acquired Businesses as partial payment of a contractual obligation discussed in footnote 3.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SPECIAL COMPENSATION EXPENSE

In 1997, SSI recorded a special non-cash compensation expense of approximately $2.6 million related to the issuance of 221,595 shares of Common Stock to three members of executive management and to Computerized Accounting & Tax Services, Inc. ("CATS"), a related party, to attract such individuals and CATS to effect the IPO. For financial statement presentation purposes, these shares were valued at approximately $11.70 per share, which was the fair market value of the shares at the time of issuance.

During 1997, Invatec recorded a special non-cash compensation expense of approximately $5.0 million related to (i) its issuance of 242,839 shares of Common Stock to six members of executive management and CATS to attract them to effect the IPO and (ii) its grant to certain of its officers of options to purchase 202,589 shares of Common Stock at an exercise price of $1.00 per share. For financial statement presentation purposes, the shares were valued at approximately $11.70 per share and the options were valued at approximately $10.70 per option share.





NONRECURRING COSTS

During 1998, the Company recorded nonrecurring costs of approximately $1.4 million in write-offs of capitalized costs of abandoned projects, including a friction welding system, and $0.8 million of accrued severance costs.

3. ACQUISITIONS:

1997

The aggregate consideration paid by the Company to purchase Acquired Businesses in 1997 (as described in Footnote 1) was $52.2 million in cash and assumed debt, $17.2 million in the form of short-term notes and subordinated notes convertible into common shares and 185,661 shares of Common Stock.

Of the total purchase price paid for the Acquisitions, $23.2 million was allocated to net assets acquired, and the remaining $48.9 million was recorded as goodwill.

1998

The aggregate consideration paid by the Company to purchase Acquired Businesses in 1998 (as described in Footnote 1) was $38.2 million in cash and assumed debt, $0.4 million in the form of subordinated notes convertible into common shares and 1,749,052 shares of Common Stock.

Of the total purchase price paid for the Acquisitions, $13.4 million was allocated to net assets acquired, and the remaining $44.9 million was recorded as goodwill. Purchase accounting for these acquisitions has been finalized.

Three of the acquisition agreements for the Additional Acquired Businesses contain provisions requiring the Company to pay additional amounts (the "Makeup

Amount") to the former shareholders of each acquired business on the first anniversary of that acquisition if the price of Invatec Common Stock on that anniversary date is below a certain level. Two of those acquisition agreements were entered into on July 9, 1998, and give Invatec the option of paying up to one-half of the Makeup Amount in cash, with the remainder paid in Common Stock valued at the market price on the anniversary date. The third agreement was entered into on June 29, 1998 and gives Invatec the option of paying the entire Makeup Amount in cash or Common Stock valued at the market price on the anniversary date.

The Makeup Amount is approximately $6.5 million and was recorded as a liability with a corresponding offset to additional paid in capital. Effective December 13, 1999, 555,555 shares were issued to the former shareholders of one of the Acquired Businesses in partial payment of the Makeup Amount, thereby reducing the Makeup Amount to approximately $5.6 million. As of December 31, 1999, no additional shares of Invatec Common Stock had been issued to the former shareholders of the other two Acquired Businesses, and the Company's management negotiated a discount in the payment of the Makeup Amount with the former shareholders contingent upon such cash payment being made to the shareholders by January 31, 2000. The discounted amount was paid to the former shareholders on January 6, 2000.





4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

| | ESTIMATED USEFUL LIVES | DECEMBER 31 1998 | DECEMBER 31 1999 |
|---|---|---|---|
| Land | -- | $ 1,716,839 | $ 1,390,898 |
| Buildings | 30 years | 6,635,878 | 6,254,880 |
| Leasehold improvements | 30 years | 2,910,874 | 3,127,346 |
| Furniture and fixtures | 3-5 years | 4,884,500 | 4,818,073 |
| Machinery and equipment | 5 years | 23,249,259 | 24,488,437 |
| | | 39,397,350 | 40,079,634 |
| Less -- Accumulated depreciation | | (19,927,546) | (21,867,058) |
| Property and equipment, net | | $ 19,469,804 | $ 18,212,576 |

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following:

| | DECEMBER 31 1997 | DECEMBER 31 1998 | DECEMBER 31 1999 |
|---|---|---|---|
| Balance, at beginning of year | $ 25,000 | $1,079,857 | $1,562,104 |
| Additions | 102,243 | 107,787 | 1,012,572 |
| Deductions | (80,810) | (413,151) | (396,165) |
| Allowance for doubtful accounts at acquisition dates | 1,033,424 | 787,611 | -- |
| Balance, at end of year | $1,079,857 | $1,562,104 | $2,178,511 |

Inventory consists of the following:

| | DECEMBER 31 | |
|---|---|---|
| | 1998 | 1999 |
| Finished goods | $21,785,485 | $22,271,942 |
| Work in process | 4,222,319 | 3,819,788 |
| | $26,007,804 | $26,091,730 |

Accounts payable and accrued expenses consist of the following:

| | DECEMBER 31 | |
|---|---|---|
| | 1998 | 1999 |
| Accounts payable, trade | $ 8,086,157 | $ 9,603,813 |
| Accrued compensation and benefits | 1,357,717 | 2,417,973 |
| Accrued insurance | 1,733,133 | 652,365 |
| Interest and fees payable | 1,067,020 | 5,161,722 |
| Other accrued expenses | 7,120,560 | 3,201,935 |
| | $19,364,587 | $21,037,808 |





6. CREDIT FACILITY:

The Company's Old Credit Facility was a $90 million three-year revolving credit facility the Company used for acquisitions and general corporate purposes. Declining earnings during 1998 ultimately resulted in the Company defaulting in July 1998 on its Old Credit Facility as a result of failing to meet certain financial covenants requiring specific levels of earnings in relation to debt. This default left the Company unable to borrow funds for acquisitions. The Company remained in default under the loan agreement from July 20, 1998 through March 25, 1999. The Company's acquisition program has been effectively suspended since July 1998 as a result of the low price of the Company's Common Stock and its inability to borrow funds.

In March 1999, the Company and its existing syndicate of lenders agreed to amend the Company's credit facility to put into place the New Credit Facility. The Company's credit facility was reduced from $90 million to $80 million and restructured to be comprised of a stationary term component of $35 million and a revolving credit facility of up to $45 million up to a maximum loan amount of $76.5 million, the proceeds of which may be used only for general corporate and working capital purposes. The Company's domestic subsidiaries have guaranteed the repayment of all amounts due under the facility, and repayment is secured by pledges of the capital stock, and all or substantially all of the assets, of those subsidiaries. The New Credit Facility prohibits acquisitions and the payment of cash dividends, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with certain financial covenants. These financial covenants include provisions for maintenance of certain levels of earnings before interest, taxes, depreciation, amortization, certain levels of cash flows as defined by the New Credit Facility and other items specified in the loan agreement. The amount of availability under the New Credit Facility is now governed by a borrowing base which consists primarily of the accounts receivable and inventory of the Company and its subsidiaries, although the amount available under the revolving portion of the credit facility will decrease over time and upon the occurrence of certain specified events,

such as a sale of assets outside the ordinary course of business. In addition, the Company and the subsidiaries are now required to (i) meet substantially more stringent reporting covenants, (ii) submit to collateral audits and (iii) deposit all revenues and receipts into lockbox accounts. Interest accrues at the prime rate as in effect from time to time, plus 2%, payable monthly. On October 22, 1999, and in contemplation of the Company's entering into the Merger Agreement, the syndicate of lenders entered into the Third Amendment to Loan Agreement (the "Third Amendment") with the Company, waiving certain defaults and suspending the breach of certain other covenants constituting an event of default until January 31, 2000. The Third Amendment also reduced the maximum aggregate loan amount under the Credit Facility to $76.0 million and revised the maturity date to January 31, 2000. However, at December 31, 1999, the Company exceeded the limit by approximately $0.3 million. In addition, fees accrue each quarter at the rate of 1.5% of the unpaid principal balance under the New Credit Facility. These fees of approximately $4.3 million are accrued at December 31, 1999, but, as provided in the Third Amendment, the fees will be waived if the Company repays all obligations under the Credit Facility by January 31, 2000. The entire Credit Facility was repaid on January 6, 2000, and the contingent fees were waived.

In connection with the New Credit Facility, the syndicate of lenders were issued warrants to purchase up to 482,262 shares of the common stock of the Company, exercisable at $0.73 per share (10% below the market price of such common stock as of March 25, 1999), and granted certain registration rights with respect to the shares issuable upon exercise of the warrants. The warrants do not have an expiration date. The estimated fair value of the warrants at the date issued was $0.21 per share using a Black-Scholes option pricing model. The fair value of the warrants was recorded as deferred loan costs and is being amortized over the term of the Credit Facility. Under the Third Amendment, if the Company repays all obligations under the Credit Facility by January 31, 2000, the syndicate of lenders has agreed to return these warrants to the Company for cancellation. The entire Credit Facility was repaid on January 6, 2000, and the warrants were returned to the Company.





At December 31, 1999 the Company's outstanding borrowings under the Credit Facility were $76.3 million, bearing interest at 10.50%.

7. LONG-TERM DEBT:

Long-term debt consists of the following:

| | DECEMBER 31, | |
|---|---|---|
| | 1998 | 1999 |
| Notes payable to former stockholders of Spin Safe, with annual installments of $100,000 beginning January 15, 1998, non-interest bearing, due January 15, 2001, unsecured | $280,906 | $200,000 |
| Installment notes payable; interest ranging from 5.09% to 10%, payable in monthly installments through 2006; secured by certain assets | 700,068 | 433,754 |
| | 980,974 | 633,754 |
| Less: current maturities | 580,140 | 633,754 |
| | $400,834 | $ -- |

Notes payable outstanding at December 31, 1999, were subsequently paid in January 2000 (see Footnote 18). Therefore, the notes payable are classified as current liabilities in the accompanying December 31, 1999 consolidated balance sheet.

8. CONVERTIBLE SUBORDINATED DEBT:

At December 31, 1999, outstanding convertible subordinated debt consisted of approximately $5.1 million aggregate principal amount of 5.0% notes due in 2002, $1.6 million aggregate principal amount of 5.5% notes due in 2004, $4.6 million aggregate principal amount of 5.5% notes due in 2002 and $0.4 million aggregate principal amount of 5.0% notes due 2003. These notes are convertible into shares of Common Stock at initial conversion prices ranging from $16.90 to $22.20 per share at the option of the holder in whole at any time. In connection with the proposed Merger, the Company's management negotiated a discount in the payment of the convertible subordinated notes with the holders of the notes if such payment was made by January 31, 2000. The discounted payments were made to the holders on January 6, 2000, therefore, the convertible subordinated debt is classified as current liabilities in the accompanying December 31, 1999 consolidated balance sheet.





9. INCOME TAXES:

The provision (benefit) for income taxes consisted of:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Current: | | | |
| U.S. Federal | $(1,026,565) | $(1,089,396) | $(2,031,653) |
| State | 513,854 | 661,728 | 284,949 |
| Total current benefit | (512,711) | (427,668) | (1,746,704) |
| Deferred: | | | |
| U.S. Federal | (478,127) | 711,237 | 7,794,214 |
| State | (31,884) | 136,367 | 324,860 |
| Total deferred provision (benefit) | (510,011) | 847,604 | 8,119,074 |
| Total income tax provision (benefit) | $(1,022,722) | $ 419,936 | $ 6,372,370 |

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate to income before income taxes as follows:

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Statutory federal income tax benefit | (34)% | (34)% | (34)% |
| Special compensation charge | 22% | -- | -- |
| Nondeductible goodwill | 2% | 43% | 25% |
| Other nondeductible expenses | 3% | -- | (5)% |
| State taxes, net of federal benefit of 34% | 4% | 33% | 1% |
| Other | 1% | (1)% | 4% |
| Allowance for valuation of deferred tax assets | (10)% | -- | 21% |
| Effective income tax rate | (12)% | 41% | 12% |

Net deferred tax assets consist of the following:

| | DECEMBER 31 | |
|---|---|---|
| | 1998 | 1999 |
| Current deferred tax assets: | | |
| Accrued liabilities and valuation allowances not currently deductible | $4,481,256 | $ 4,266,563 |
| | 4,481,256 | 4,266,563 |
| Noncurrent deferred tax assets: | | |
| Net operating losses | 3,025,914 | 5,721,664 |
| Special compensation charge | 802,050 | 802,050 |
| Amortization of intangibles | -- | 1,272,787 |
| Other | -- | -- |
| | 3,827,964 | 7,796,501 |
| Valuation allowance | -- | (10,589,215) |
| Total deferred tax assets | $8,309,220 | $ 1,473,849 |
| Noncurrent deferred tax liabilities: | | |
| Depreciation of property, plant and equipment | $ (700,812) | $ (246,482) |
| Amortization of intangibles | (206,734) | -- |
| | (907,546) | (246,482) |
| Net deferred tax assets | $7,401,674 | $ 1,227,367 |

The Company records a valuation allowance for deferred tax assets when management believes it is more likely than not the asset will not be realized. Management has recorded a valuation allowance for this deferred tax asset as of December 31, 1999. The net operating loss carryforwards of approximately $15.4 million will only be realizable to the extent that the operating facilities generate income in the future.

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Deferred tax provision (benefit) during the year | | | |
| Net operating loss | $ 644,022 | $ -- | $ -- |
| Special compensation charge | (802,050) | -- | -- |
| Depreciation | 128,843 | 302,804 | (1,079,422) |
| Accrued expenses | 366,400 | 544,800 | (1,390,719) |
| Valuation allowance | (847,226) | -- | 10,589,215 |
| Total | $(510,011) | $847,604 | $ 8,119,074 |

Certain deferred tax assets and liabilities were recorded with respect to purchase accounting for the Acquired Business during the year ended December 31, 1998.

10. STOCKHOLDERS' EQUITY:

REVERSE STOCK SPLIT

Prior to the SSI Merger, SSI and Invatec each effected a 0.68-for-one reverse stock split of its outstanding common stock. The accompanying financial statements have been prepared as if these splits had been effected as of the beginning of the earliest period presented.

SSI MERGER

As a result of the SSI Merger: (i) the shares of SSI Common Stock and redeemable preferred stock outstanding as of October 31, 1997 were converted into shares of Common Stock; (ii) outstanding options and a warrant to purchase shares of SSI Common Stock were converted into options to purchase Common Stock; and (iii) SSI's authorized capital stock became 1,000 shares of SSI Common Stock, par value $1.00 per share, all of which have been issued and are outstanding and owned by Invatec. All share and per share information for the periods shown, except authorized shares, have been restated to reflect the merger as of the beginning of the earliest period presented.

INVATEC COMMON STOCK

Invatec sold 3,852,500 shares of Common Stock in the IPO. The initial price to the public in the IPO was $13.00, and Invatec's proceeds from the IPO, net of an underwriting discount of $3.5 million and IPO expenses of $2.6 million, including approximately $1.5 million of expenses which were initially funded through advances obtained from Philip Services Corp. (collectively, with its subsidiaries), totaled $44.0 million.

At December 31, 1999, the Company had reserved 600,769 shares of Common Stock for issuance on conversion of its outstanding convertible subordinated notes described in Note 8, 1,650,000 shares of Common Stock for issuance on the exercise of stock options under Invatec's 1997 Incentive Plan, of which options to purchase a total of 1,145,670 shares then were exercisable at exercise prices ranging from $1.00 per share to $17.00 per share and 482,262 for warrants issued to the Company's syndicate of lenders. The Company has not reserved a specific number of shares of Common Stock for issuance in payment of any Makeup Amount that may be due to certain former shareholders of the three 1998 Additional Acquired Businesses discussed in Note 3 because the Company has the option of paying the obligation in cash.

Invatec's certificate of incorporation authorizes the issuance of up to 30.0 million shares of Common Stock, of which 10,220,117 shares were issued and outstanding as of December 31, 1999, and 5.0 million shares of preferred stock, none of which has been issued.

STOCK OPTIONS

In 1996, the Company began a management stock option program that was discontinued in 1997. Under this program, the Company granted both shares of Common Stock and options to purchase shares of Common Stock to certain members of management. The options vested monthly and were exercisable at any time following the six-month period ending June 30 or December 31 in which the options were earned. The Company had reserved 200,000 shares of Common Stock for issuance in this program. During 1996, the Company granted 4,513 shares of Common Stock and options to purchase 71,899 shares of Common Stock. The options had an exercise price of $10.00 per share and are exercisable through July 1, 2001. In 1996, the Company recorded non-cash compensation expense of $26,548 for the 4,513 shares issued with a fair market value of $5.88 per share. No compensation expense was recorded for the options granted in 1996 because their exercise price exceeded the fair market value of the underlying shares ($5.88 per share). Prior to 1996, the Company had, from time to time, granted options to key employees



INNOVATIVE VALVE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

at or above the market value of the Common Stock. The options granted had exercise prices ranging from $5.00 to $20.00 per share. All but 50,000 options expired in 1996. The remaining options were exercised in June 1997.

1997 INCENTIVE PLAN

The Company has adopted an incentive plan (the "Incentive Plan") that provides for the granting or awarding of stock options and other performance-based awards to key employees, nonemployee directors and independent contractors of the Company and its subsidiaries. The Incentive Plan aims to attract and retain the services of key employees and qualified independent directors and contractors by making stock option and other performance-based awards tied to the growth and performance of the Company. At December 31, 1999, Invatec had reserved 1,500,000 shares of Common Stock for use under the Incentive Plan. Beginning in the second quarter of 1998, the number of shares available for that use became the greater of 1,500,000 or 15% of the number of shares of Common Stock outstanding on the last day of the preceding quarter.

The following table summarizes the stock options outstanding at December 31, 1999 and changes during the three years then ended:

| | SHARES UNDER OPTION | WEIGHTED-AVERAGE EXERCISE PRICE |
|---|---|---|
| Balance at December 31, 1996 | 121,899 | $ 7.94 |
| Warrants converted to options | 15,000 | 10.00 |
| Granted | 1,310,389 | 9.97 |
| Exercised | (50,000) | 5.00 |
| Cancelled | (1,540) | 10.00 |
| Balance at December 31, 1997 | 1,395,748 | 9.97 |
| Granted | 586,236 | 3.40 |
| Exercised | (23,500) | 8.87 |
| Cancelled | (502,500) | 11.51 |
| Balance at December 31, 1998 | 1,455,984 | 6.81 |
| Granted | -- | -- |
| Exercised | -- | -- |
| Cancelled | (24,500) | 11.16 |
| Balance at December 31, 1999 | 1,431,484 | 6.74 |
| Available for grant at December 31, 1999 | 195,016 | |

The options outstanding at December 31, 1999 have exercise prices from $1.00 to $17.00 per share and a weighted average remaining contractual life of 5.02 years.

At December 31, 1997, 1998, and 1999, the number of options exercisable was 533,873, 558,198, and 1,145,670, respectively, and the weighted average exercise price of those options was $9.97, $7.96, and $6.70, respectively. Subsequent to December 31, 1999, options with $1 exercise price were redeemed for the value of the options and the remaining options were cancelled.

The Company accounts for options by applying APB Opinion No. 25, under which no compensation expense (other than described in Footnote 2) has been recognized. No options were granted in 1999.





If the Company had recorded 1997, 1998 and 1999 compensation cost for option grants consistent with SFAS No. 123, net loss and loss per share would have been resulted by the following pro forma amounts:

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Net Loss: | | | |
| As Reported | $(7,499,964) | $(1,414,973) | $(57,138,451) |
| Pro forma | $(8,350,661) | $(3,001,219) | $(65,045,306) |
| Loss Per Share: | | | |
| Basic | | | |
| As Reported | $ (2.25) | $ (0.16) | $ (5.90) |
| Pro forma | $ (2.50) | $ (0.33) | $ (6.71) |

The pro forma compensation cost may not be representative of that to be expected in future years because options vest over several years and additional awards may be made each year.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions used for grants in 1997 and 1998 respectively: dividend yield of 0% and 0%; expected volatility of 48.43% and 50.27%; risk-free interest rate of 6.09% and 4.94%; and expected lives of 6.92 years and 7.0 years.

WARRANTS

During 1997, Philip exercised warrants to purchase 680,768 shares of SSI Common Stock at an exercise price of $6.32 per share. Consideration for the exercise consisted of approximately $3.3 million of Philip promissory notes and approximately $1.2 million in cash. The Company used the Philip notes as part of the consideration it paid for Harley. See footnote 6 for the information regarding warrants issued to the Company's syndicate of lenders.

11. EARNINGS PER SHARE:

The computation of earnings (loss) per share of Common Stock is presented in accordance with SFAS No. 128, "Earnings Per Share," based on the following shares of Common Stock outstanding:

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Issued and outstanding at January 1 | 1,481,919 | 7,890,198 | 9,664,562 |
| Issued to acquire businesses (weighted) | 25,016 | 1,116,316 | -- |
| Issued in connection with the Company's IPO (weighted) | 726,445 | -- | -- |
| Issued in redemption of SSI Preferred Stock (weighted) | 228,192 | -- | -- |
| Issued in connection with SSI and Invatec merger (weighted) | 170,105 | -- | -- |
| Issued in partial payment of the Makeup Amount (weighted) | -- | -- | 27,397 |
| Issued for stock options exercised and warrants exercised (weighted) | 766,303 | 18,401 | -- |
| Weighted average shares outstanding -- Basic and Diluted | 3,397,980 | 9,024,915 | 9,691,959 |

Common share equivalents including options to purchase 10,301 shares of Common Stock and $12.5 million of subordinated debt convertible into Common Stock at prices ranging from $16.90 to

$22.20 per share, outstanding at December 31, 1997, were not included in the computation of diluted EPS as their effect on EPS was antidilutive.

Common share equivalents including options to purchase 258,583 shares of Common Stock, approximately 2.5 million shares of Common Stock assumed to be issued for guaranteed stock prices, and $11.7 million of subordinated debt convertible into Common Stock at prices ranging between $16.90 and $22.20 per share, outstanding at December 31, 1998, were not included in the computation of diluted EPS as their effect on EPS was antidilutive.

Common share equivalents including options to purchase 201,589 shares of Common Stock, warrants to purchase 482,262 shares of Common Stock, approximately 3.5 million shares of Common Stock assumed to be issued for guaranteed stock prices, and $11.7 million of subordinated debt convertible into Common Stock at prices ranging between $16.90 and $22.20 per share, outstanding at December 31, 1999, were not included in the computation of diluted EPS as their effect on EPS was antidilutive.

12. REDEEMABLE PREFERRED STOCK:

In 1995, SSI issued and sold 20,000 shares of its redeemable preferred stock to Philip for $2.0 million ($100 per share). In the SSI Merger in 1997, these shares, together with accrued dividends thereon, were converted into 154,958 shares of Common Stock.

13. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES

The Company leases warehouse space, office facilities and vehicles under noncancelable leases. Rental expense for 1997, 1998 and 1999 was approximately $822,400, $2,765,553, and $3,105,000 respectively. The following represents future minimum rental payments under noncancelable operating leases:

| Year ending December 31 -- | |
|---|---|
| 2000 | $3,007,486 |
| 2001 | 2,382,838 |
| 2002 | 1,406,691 |
| 2003 | 523,289 |
| 2004 | 399,462 |
| Thereafter | 1,317,372 |
| | $9,037,138 |

LITIGATION

In the ordinary course of its business, the Company has become involved in various legal actions. Management, after consultation with legal counsel, does not believe that the outcome of these legal actions will have a material effect on the Company's financial position or results of operations.

14. CERTAIN TRANSACTIONS:

The Company had a management agreement with CATS, an entity then related by common ownership. Management fee expense for 1997 was approximately $353,000. This agreement terminated in 1997.





15. EMPLOYEE BENEFIT PLANS:

The Company maintains certain 401(k) plans which allow eligible employees to defer a portion of their income through contributions to the plans. The Company contributed approximately $59,000, $596,000 and $793,000 to its plans during the years ended December 31, 1997, 1998, and 1999 respectively.

16. RELATIONSHIP WITH PHILIP:

In 1996, Philip agreed to make certain advances to SSI to enable SSI, or its successors, to pursue a possible initial public offering. As a result of Philip's financial support of SSI's acquisition of Harley, Philip became a related party of the Company for financial statement presentation purposes effective January 31, 1997. In June 1997, Invatec entered into a funding arrangement with Philip pursuant to which Philip advanced funds to Invatec to pay costs related to the IPO and Invatec assumed SSI's obligation to repay the Philip advances and the related deferred offering costs funded with these advances.

In connection with the IPO, Invatec issued 1,036,013 shares of Common Stock to Philip as payment of $8.6 million of indebtedness owed to Philip. Immediately after the IPO, Invatec repaid the remaining $3.0 million of indebtedness owed to Philip in cash.

17. SERVICE AND DISTRIBUTION AGREEMENTS:

The Company purchases, sells and services various products under service and distribution agreements with its major suppliers. In general, these agreements are cancelable by the suppliers upon 30 to 60 days notice. Management does not anticipate cancellation of these agreements.

18. SUBSEQUENT EVENTS (UNAUDITED):

On November 18, 1999, the Company entered into an Agreement and Plan of Merger with Flowserve. On November 22, 1999, Flowserve commenced the Tender Offer to purchase all shares of Common Stock at a price of $1.62 per share. The Tender Offer was successfully completed on January 6, 2000 and the Merger was effective as of January 13, 2000.

In connection with the proposed merger, Company management negotiated discounted amounts (which are not reflected in the accompanying consolidated financial statements) with certain holders of convertible subordinated debt, its syndicate of lenders, holders of preferred stock of one of the Acquired Businesses, and former owners in regard to Makeup Amount obligations. The total amount discounted was approximately $10.8 million as follows: $3.8 million reduction in convertible subordinated debt, $4.3 million in waived bank fees, $2.2 million reduction in the Makeup Amount obligation, and $0.5 million in other obligations. The obligations were discounted contingent upon the discounted payments being made by January 31, 2000. The discounted obligations were paid prior to January 31, 2000. Post-merger costs such as employment agreements, severance and other employee- or restructuring-related costs are not reflected in the accompanying consolidated financial statements. Also, in connection with the Tender Offer, all options with $1 exercise price were redeemed for the value of the options and the remaining options were cancelled.

Subsequent to December 31, 1999, the Company and two of its principal officers were named as defendants in a lawsuit alleging misrepresentation. Management believes that this lawsuit is without merit and, accordingly, no provision has been made in the accompanying financial statements for this matter. The outcome of this lawsuit is not determinable at this time.



REPORT OF INDEPENDENT ACCOUNTANTS

To the Partners and Management Committee of
Ingersoll-Dresser Pump Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of partners' equity present fairly, in all material respects, the financial position of Ingersoll-Dresser Pump Company and its subsidiaries (the "Company") at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Florham Park, NJ
February 18, 2000, except for Note 1
"Acquisition of Halliburton's Interest" and
Note 16 for which the dates are September 12,
2000 and June 22, 2000, respectively.



INGERSOLL-DRESSER PUMP COMPANY

CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| | (IN THOUSANDS) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 49,859 | $ 28,456 |
| Marketable securities | 3,268 | 3,607 |
| Accounts and notes receivable, less allowance for doubtful accounts of $7,928 in 1999 and $6,631 in 1998 | 200,215 | 209,352 |
| Due from partners | 1,924 | 56,293 |
| Inventories, net of progress payments | 110,220 | 116,055 |
| Prepaid expenses | 4,888 | 8,978 |
| Deferred income taxes | 12,600 | 10,474 |
| Other current assets | 3,244 | 3,966 |
| | 386,218 | 437,181 |
| Investments in and advances with partially-owned equity companies | 12,279 | 12,686 |
| Due from partners | -- | 227,534 |
| Property, plant and equipment, at cost: | | |
| Land, buildings and improvements | 108,574 | 113,964 |
| Machinery and equipment | 179,924 | 240,592 |
| Less -- accumulated depreciation | (114,094) | (243,714) |
| | 174,404 | 110,842 |
| Intangible assets, net | 78,090 | 381 |
| Goodwill, net | 141,447 | 8,198 |
| Other assets | 4,004 | 3,730 |
| Total assets | $ 796,442 | $ 800,552 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable and accruals | $ 195,043 | $ 224,827 |
| Due to partners | 14,125 | 9,602 |
| Customers' advance payments | 886 | 4,512 |
| Short-term borrowings | 1,302 | 733 |
| | 211,356 | 239,674 |
| Deferred income taxes | 25,307 | 1,914 |
| Postemployment liabilities | 67,159 | 79,727 |
| Other non-current liabilities | 99 | 141 |

| | | |
|---|---|---|
| Total liabilities | 303,921 | 321,456 |
| Commitments and contingencies (Note 8) | | |
| Partners' equity: | | |
| Contributed capital | 425,953 | 377,357 |
| Accumulated earnings | 92,446 | 131,733 |
| | 518,399 | 509,090 |
| Accumulated other comprehensive loss | (25,878) | (29,994) |
| Partners' equity | 492,521 | 479,096 |
| Total liabilities and partners' equity | $ 796,442 | $ 800,552 |

The accompanying notes are an integral part of these financial statements.



INGERSOLL-DRESSER PUMP COMPANY

CONSOLIDATED STATEMENTS OF INCOME

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (IN THOUSANDS) | | |
| Net sales | $838,390 | $907,168 | $865,092 |
| Cost of goods sold | 610,745 | 661,067 | 637,173 |
| Selling, general and administrative expenses | 165,031 | 172,719 | 166,749 |
| Restructuring charges | 200 | 3,600 | 19,500 |
| Operating income | 62,414 | 69,782 | 41,670 |
| Interest expense | 1,362 | 1,620 | 1,316 |
| Other income, net | 7,446 | 7,061 | 4,202 |
| Earnings before income taxes | 68,498 | 75,223 | 44,556 |
| Provision for income taxes | 18,965 | 16,573 | 13,228 |
| Net earnings | $ 49,533 | $ 58,650 | $ 31,328 |

The accompanying notes are an integral part of these financial statements.



INGERSOLL-DRESSER PUMP COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (IN THOUSANDS) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net earnings | $ 49,533 | $ 58,650 | $ 31,328 |
| Adjustments to arrive at net cash provided by operating activities: | | | |
| Depreciation and amortization | 18,251 | 18,971 | 20,096 |
| Loss(gain) on sale of property, plant and equipment | 508 | (695) | (192) |
| Equity earnings/losses, net of dividends | (284) | 136 | 352 |
| Deferred income taxes | (214) | (874) | (1,095) |
| Other non-cash activity | 2,500 | 1,453 | 1,392 |

| | | | |
|---|---|---|---|
| Changes in assets and liabilities | | | |
| (Increase) decrease in: | | | |
| Accounts and notes receivable | (2,320) | (9,838) | (19,639) |
| Inventories | 4,383 | (762) | (4,270) |
| Other current and noncurrent assets | 810 | 437 | 5,281 |
| (Decrease) increase in: | | | |
| Accounts payable and accruals | (13,880) | 6,030 | 36,697 |
| Other current and noncurrent liabilities | (5,742) | 3,920 | (6,645) |
| Net cash provided by operating activities | 53,545 | 77,428 | 63,305 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (18,218) | (20,285) | (16,326) |
| Proceeds from sales of property, plant and equipment | -- | 1,728 | 505 |
| Increase in marketable securities | (178) | (369) | (294) |
| Cash (invested in) or advances (to) from equity companies | 700 | 704 | (673) |
| Net cash used in investing activities | (17,696) | (18,222) | (16,788) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Increase (decrease) in short-term borrowings | 684 | (510) | 160 |
| Increase in Due from partners | (12,643) | (69,320) | (43,138) |
| Net cash used in financing activities | (11,959) | (69,830) | (42,978) |
| Effect of exchange rate changes on cash and cash equivalents | (2,487) | 680 | (4,143) |
| Net increase (decrease) in cash and cash equivalents | 21,403 | (9,944) | (604) |
| Cash and cash equivalents -- beginning of year | 28,456 | 38,400 | 39,004 |
| Cash and cash equivalents -- end of year | $ 49,859 | $ 28,456 | $ 38,400 |
| Cash paid during the year for: | | | |
| Interest | $ 1,274 | $ 1,322 | $ 959 |
| Taxes | $ 22,591 | $ 15,424 | $ 8,604 |

The accompanying notes are an integral part of these statements.



INGERSOLL-DRESSER PUMP COMPANY

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

| | CONTRIBUTED CAPITAL | ACCUMULATED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | TOTAL COMPREHENSIVE INCOME (LOSS) | TOTAL |
|---|---|---|---|---|---|
| | | | (IN THOUSANDS) | | |
| At January 1, 1997 | $ 377,357 | $ 41,755 | $(18,066) | | $ 401,046 |
| Net income | | 31,328 | | $ 31,328 | 31,328 |
| Other comprehensive income | | | | | |
| Foreign currency translation adjustment | | | (16,018) | (16,018) | (16,018) |
| Total comprehensive income | | | | 15,310 | |
| At December 31, 1997 | 377,357 | 73,083 | (34,084) | | 416,356 |
| Net income | | 58,650 | | 58,650 | 58,650 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | | | 4,090 | 4,090 | 4,090 |
| Total comprehensive income | | | | 62,740 | |
| At December 31, 1998 | 377,357 | 131,733 | (29,994) | | 479,096 |
| Net income | | 49,533 | | 49,533 | 49,533 |
| Offset of Due from partners | (282,312) | | | | (282,312) |

| | | | | | |
|---|---|---|---|---|---|
| Other comprehensive income | | | | | |
| Foreign currency translation adjustment | | | (20,747) | (20,747) | (20,747) |
| Total comprehensive income | | | | $ 28,786 | |
| Effect of push-down accounting for Ingersoll-Rand's purchase of Halliburton's interest | 330,908 | (88,820) | 24,863 | | 266,951 |
| At December 31, 1999 | $ 425,953 | $ 92,446 | $(25,878) | | $ 492,521 |

The accompanying notes are an integral part of these statements.



INGERSOLL-DRESSER PUMP COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

## 1. SUMMARY OF FORMATION AND OPERATIONS

### BACKGROUND AND FORMATION

On October 1, 1992, Ingersoll-Rand Company ("Ingersoll-Rand") and Dresser Industries, Inc. ("Dresser Industries") (collectively the "Original Partners") entered into a partnership agreement for the formation of Ingersoll-Dresser Pump Company (the "Company"), a general partnership owned 51 percent by Ingersoll-Rand Company and 49 percent by Dresser Industries, Inc. Upon formation, the Original Partners contributed substantially all of the operating assets (excluding domestic cash) and certain related liabilities which comprised their worldwide centrifugal and reciprocating pumps businesses. The Original Partners retained certain liabilities arising prior to the formation of the partnership and guaranteed receivables contributed at inception. In September 1998, Dresser Industries completed a merger with Halliburton Company ("Halliburton") and transferred its interest in the Company to Halliburton.

On December 30, 1999, IDP Acquisition, LLC, a wholly-owned subsidiary of Ingersoll-Rand, acquired Halliburton's interest in the Company. Indirectly, Ingersoll-Rand wholly-owns the Company. During 1999, Ingersoll-Rand announced its plans to sell the Company.

### OPERATIONS

The Company principally serves the oil production and refining, chemical process, marine, agricultural, electric utility and general manufacturing industries. The Company was managed by a committee, on which, prior to the acquisition of the Halliburton interest, the partners had proportionate representation, based on their respective interest in the Company.

### ACQUISITION OF HALLIBURTON'S INTEREST

As described above, on December 30, 1999, IDP Acquisition, LLC, a wholly-owned subsidiary of Ingersoll-Rand, acquired Halliburton's interest in the Company for $377,480. The cost of this acquisition in excess of the book value of Halliburton's 49% interest, $266,951, has been recorded by the Company using push-down accounting. Accordingly, the excess of the purchase price over the book value of Halliburton's interest was allocated to the net tangible and identifiable intangible assets based on their respective fair values and the balance charged to goodwill. In addition, Halliburton's 49% interest in accumulated earnings and foreign currency translation adjustment were eliminated and charged to contributed capital.

The excess of Ingersoll-Rand's basis over the book value of Halliburton's 49% interest has been allocated to the assets and liabilities of the Company as follows:

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | |
|---|---|
| Total consideration | $377,480 |
| Book value of Halliburton's 49% interest | 110,529 |
| Basis in excess of book value | 266,951 |
| Fair value greater(less) than book value of Halliburton's 49% interest: | |
| Inventory | 3,430 |
| Other current assets | (572) |
| Property, plant and equipment | 71,276 |
| Intangible assets | 76,884 |
| Non-current liabilities | (17,528) |
| Goodwill | $133,461 |





PROFORMA INFORMATION (UNAUDITED)

If Ingersoll-Rand had acquired Halliburton's interest in the Company as of January 1, 1999 or January 1, 1998, operating income would have been decreased by $11,146 per year due to increased depreciation and amortization expense. There would be no effect on net sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements of the Company include all domestic and foreign wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated. Partially-owned equity companies are accounted for under the equity method.

USE OF ESTIMATES

In conformity with generally accepted accounting principles, management has used estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

CASH EQUIVALENTS AND MARKETABLE SECURITIES

The Company considers all highly liquid investments consisting primarily of treasury bills and notes, time deposits and commercial paper with a maturity of three months or less when purchased, to be cash equivalents. Marketable securities consist primarily of treasury bills, which are carried at cost, which approximates market value.

INVENTORIES

Inventories are generally stated at cost, which is not in excess of market. Cost is based on the first-in, first-out (FIFO) method or average cost.

PROPERTY AND DEPRECIATION

Property, plant and equipment is recorded at cost. The Company principally uses accelerated depreciation methods for assets placed in service prior to December 31, 1994 and the straight-line method for assets acquired subsequent to that date. Property, plant and equipment are depreciated over the assets' useful lives of 3-40 years. See Note 1 for a discussion of IDP Acquisition, LLC's acquisition of the 49% interest owned by Halliburton and its impact on property, plant and equipment. Depreciation expense was $17,910, $18,580 and $19,859 in 1999, 1998 and 1997, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, short-term borrowings, and accounts payable are a reasonable estimate of their

fair value due to the short-term maturities of these instruments. See Note 13 for fair value of foreign exchange contracts.

INTANGIBLE ASSETS AND GOODWILL

Goodwill, which is the excess of the purchase price of acquisitions over the fair value of the net assets acquired, is being amortized on a straight-line basis over various periods not exceeding 40 years. Intangible assets represent costs allocated to patents, tradenames, drawings, assembled workforce and other specifically identifiable assets arising from business acquisitions. These assets are amortized on a straight-





line basis over their estimated useful lives ranging from 9 to 40 years, with a weighted average life of 20 years. Goodwill and intangible assets relate primarily to the acquisition by IDP Acquisition, LLC of the 49% interest in the Company owned by Halliburton as described in Note 1. Intangible assets are evaluated for impairment whenever circumstances indicate that the carrying amounts may not be recoverable. Any impairment would be recognized when the expected future operating cash flows derived from such intangible asset is less than their carrying value.

INCOME TAXES

The Company is a partnership and generally does not provide for U.S. federal and state income taxes since all partnership income and losses are allocated to the partners for inclusion in their respective income tax returns. Income taxes are provided on the taxable earnings of foreign subsidiaries. The Company applies Statement of Financial Accounting Standards ("SFAS") No. 109 for determining deferred income taxes. Deferred taxes are provided on temporary differences between assets and liabilities for financial reporting and tax purposes as measured by enacted tax rates expected to apply when temporary differences are settled or realized. A valuation allowance is established for deferred tax assets for which realization is not likely.

ENVIRONMENTAL COSTS

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Costs to prepare environmental site evaluations and feasibility studies are accrued when the Company commits to perform them. Any liabilities for remediation costs would be recorded when they are probable and reasonably estimable, generally the earlier of completion of feasibility studies or the Company's commitment to a plan of action. The assessment of the liability is calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companies and is not discounted. The only environmental liabilities known to exist were caused prior to formation of the partnership and remain the responsibility of the Original Partners.

RESEARCH, ENGINEERING AND DEVELOPMENT COSTS

Research and development expenditures, including some engineering costs, are expensed when incurred and amounted to $2,984, $3,768 and $3,602 in 1999, 1998 and 1997, respectively.

FOREIGN CURRENCY

Assets and liabilities of foreign entities, where the local currency is the functional currency, have been translated at year-end exchange rates, and income and expenses have been translated using weighted average-for-the-year exchange rates. Adjustments resulting from translation have been recorded in partners' equity and are included in net earnings only upon sale or liquidation of the underlying foreign investment.

For foreign subsidiaries where the U.S. dollar is the functional currency, inventory and property balances and related income statement accounts have been translated using historical exchange rates and resulting gains and losses have

been credited or charged to net earnings.

Foreign currency transactions and translations increased (decreased) other income by $86, $(1,094) and $887 in 1999, 1998 and 1997, respectively.

The Company hedges certain foreign currency transactions and firm foreign currency commitments by entering into forward foreign exchange contracts (forward contracts). Gains and losses associated with currency rate changes on forward contracts hedging foreign currency transactions are recorded currently in





income. Gains and losses on forward contracts hedging firm foreign currency commitments are deferred off-balance sheet and included as a component of the related transaction; however, a loss is not deferred if deferral would lead to the recognition of a loss in future periods. Cash flows resulting from forward contracts are accounted for as hedges of identifiable transactions or events and classified in the same category as the cash flows from the items being hedged.

REVENUE RECOGNITION AND WARRANTIES

Sales of products are recorded for financial reporting purposes generally when the products are shipped. Estimated provisions for warranties are recorded based on known problems and past experience.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting or to continue to apply APB No. 25, "Accounting for Stock Issued to Employees," and provide pro forma footnote disclosures under the fair value method in SFAS No. 123. The Company continues to apply the principles of APB No. 25 and has provided pro forma fair value disclosures in Note 14.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended, this Statement will become effective for the Company beginning January 1, 2001. The Statement requires all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives will be recognized in earnings or other comprehensive income, depending on the designated purpose of the derivative. The Company is currently evaluating the impact of adopting the standard and will comply as required.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." As amended in June 2000, this bulletin will become effective in the fourth quarter of 2000. SAB 101 expresses the SEC staff's view regarding the application of generally accepted accounting principles to revenue recognition in financial statements. The Company is currently evaluating the impact of adopting the bulletin and will comply as required.

SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing activity of $266,951 for the year ended December 31, 1999 relates to the acquisition by IDP Acquisition, LLC of Halliburton's interest in the Company as described in Note 1. Non-cash financing activity for the year ended December 31, 1999 relates to the reclassification of the Due from Partners of $282,312 to equity as a result of the announced plans to sell the Company.

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

3. INVENTORIES

At December 31, inventories were as follows:

| | 1999 | 1998 |
|---|---|---|
| Raw materials and supplies | $ 17,430 | $ 19,348 |
| Work-in-process | 46,671 | 50,806 |
| Finished goods | 46,119 | 45,901 |
| Total | $110,220 | $116,055 |

Work-in-process inventory is stated after deducting customer progress payments of $11,498 and $12,177 in 1999 and 1998, respectively.

4. INTANGIBLES AND GOODWILL

At December 31, intangibles were as follows:

| | 1999 | 1998 |
|---|---|---|
| Assembled Workforce | $18,400 | $ -- |
| Computer Software | 4,100 | -- |
| Drawings | 31,100 | -- |
| Distribution Network | 7,100 | -- |
| Trademarks | 15,800 | -- |
| Other | 2,362 | 1,248 |
| Less -- amortization | (772) | (867) |
| Total | $78,090 | $ 381 |

Amortization of intangible assets was $133, $183 and $29 in 1999, 1998 and 1997, respectively.

At December 31, goodwill was as follows:

| | 1999 | 1998 |
|---|---|---|
| Goodwill | 142,661 | 9,214 |
| Less -- amortization | (1,214) | (1,016) |
| Total | $141,447 | $ 8,198 |

Amortization of goodwill was $208 in 1999, 1998 and 1997.





5. TRADE ACCOUNTS PAYABLE AND ACCRUALS

At December 31, trade accounts payable and accruals were as follows:

| | 1999 | 1998 |
|---|---|---|
| Trade accounts payable | $ 81,268 | $ 98,695 |
| Accrued: | | |
| Compensation | 35,622 | 33,912 |
| Vacation | 10,433 | 11,084 |
| Income taxes | 9,693 | 10,758 |
| Taxes other than income | 6,719 | 8,294 |
| Warranty expense | 11,255 | 13,178 |
| Commissions | 10,786 | 13,540 |
| Other | 29,267 | 35,366 |
| | $195,043 | $224,827 |

6. INVESTMENTS IN PARTIALLY-OWNED EQUITY COMPANIES

The Company has three investments, 50 percent in Niigata Worthington, 36.6 percent in Industrias Medina and 25 percent in Thompsons, Kelly & Lewis Pty. Ltd., which operate in similar lines of business. The Company's investments in and amounts due (to) from partially-owned equity companies amounted to $12,409 and $(130), respectively, at December 31, 1999 and $12,125 and $561, respectively, at December 31, 1998. The Company's investment in Industrias Medina is valued at zero at December 31, 1999 and 1998. The Company's equity in the net earnings of its partially-owned equity companies was $756, $286, and $795 in 1999, 1998 and, 1997, respectively. The Company received dividends based on its equity interests in these companies of $472, $422, and $1,147 in 1999, 1998, and 1997, respectively. The Company received royalties from partially-owned equity companies, included in other income, of $992, $875 and $1,200 in 1999, 1998 and 1997, respectively.

In 1997, the Company established a reserve of $2.5 million for the estimated impact on outstanding receivables of the economic crisis in the Asia-Pacific region. During 1999, this reserve was released and recorded as other income as management believes the situation has now sufficiently improved and no reserve is considered necessary.

Summarized financial information for these partially-owned equity companies at December 31, was:

| | 1999 | 1998 |
|---|---|---|
| Current assets | $42,189 | $43,317 |
| Property, plant and equipment, net | 23,567 | 24,317 |
| Other assets | 3,365 | 750 |
| Total assets | $69,121 | $68,384 |
| Current liabilities | $26,934 | $32,048 |
| Long-term debt | 5,933 | 2,813 |
| Other liabilities | 1,222 | 821 |
| Total shareowners' equity | 35,032 | 32,702 |
| Total liabilities and shareowners' equity | $69,121 | $68,384 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Net sales | $84,349 | $82,380 | $104,308 |
| Gross profit | $19,489 | $18,788 | $ 24,650 |
| Net earnings | $ 2,617 | $ 1,536 | $ 2,449 |

7. CREDIT FACILITIES

Credit facilities have been arranged with banks outside the United States under which the Company's foreign operating units may borrow on an overdraft or short-term note basis. Available foreign lines of credit were $14,827, of which $13,525 was unused at December 31, 1999.

8. COMMITMENTS AND CONTINGENCIES

The Company is involved in various litigation, claims and administrative proceedings, including environmental matters, arising in the normal course of business. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, management believes that recovery or liability with respect to these matters would not have a material effect on the financial condition or the results of operations of the Company for any year.

In the normal course of business, the Company has issued several direct and indirect guarantees, including performance letters of credit, totaling approximately $97,308 at December 31, 1999. Management believes these guarantees will not adversely affect the consolidated financial statements.

As of December 31, 1999 and 1998, the Company had no significant concentrations of credit risk in trade receivables due to the large number of customers which comprise its receivable base and their dispersion across different industries and countries.

All principal manufacturing facilities are owned by the Company. Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rental expense was $4,067, $5,033 and $5,375 in 1999, 1998 and 1997, respectively. Minimum lease payments required under noncancellable operating leases with terms in excess of one year for the next five years and thereafter, are as follows: $3,005 in 2,000, $1,794 in 2001, $1,471 in 2002, $919 in 2003, $591 in 2004 and $256 thereafter.

The Company has entered into employment contracts with a number of its key executives and employees providing severance and stay bonuses, which become effective upon the sale of the Company by Ingersoll-Rand.

9. INCOME TAXES

Earnings before income taxes for the years ended December 31 were attributable to the following jurisdictions:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| United States | $30,808 | $48,315 | $17,461 |
| Foreign | 37,690 | 26,908 | 27,095 |
| Total | $68,498 | $75,223 | $44,556 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

The provision for income taxes is summarized for the years ended December 31 as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Current tax expense: | | | |
| United States | $ 195 | $ 516 | $ 572 |
| Foreign | 18,984 | 16,931 | 13,751 |
| Total current | 19,179 | 17,447 | 14,323 |
| Deferred tax expense (benefit): | | | |
| Foreign | 2,106 | (874) | (1,095) |
| Valuation allowance | (2,320) | -- | -- |
| Total deferred | (214) | (874) | (1,095) |
| Total provision for income taxes | $18,965 | $16,573 | $13,228 |

During the year, the Company experienced a change in circumstances regarding the realizability of the net operating loss carryforward deferred tax asset associated with the Company's German operations. As a result of a significant, positive trend in the level of profitability of these German operations, a full reversal of the $2,320 valuation allowance against this deferred tax asset was deemed appropriate.

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. statutory income tax rate to pretax income as a result of the following differences:

| | PERCENT OF PRETAX INCOME | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Statutory U.S. rates | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in rates resulting from: | | | |
| U.S. tax on partnership earnings not provided | (15.2) | (22.1) | (11.8) |
| Foreign operations | 11.2 | 9.1 | 6.5 |
| Valuation allowance | (3.3) | -- | -- |
| Effective tax rate | 27.7% | 22.0% | 29.7% |

The primary reason for the difference is that no U.S. federal or state taxes are levied upon the Company because it is a partnership for U.S. tax purposes. Under U.S. tax law, such taxes are levied upon the partners rather that the partnership.





A summary of the deferred tax accounts at December 31 follows:

| | 1999 | 1998 |
|---|---|---|

| | | |
|---|---|---|
| Current deferred assets and (liabilities): | | |
| Differences between book and tax bases in inventory and receivables | $ (73) | $ 587 |
| Differences between book and tax expense for other employee related benefits and allowances | 560 | 902 |
| Other reserves and valuation allowances in excess of tax deductions | 6,876 | 3,339 |
| Other differences between tax and financial statement values | 5,237 | 5,646 |
| Gross current deferred net tax assets | 12,600 | 10,474 |
| Noncurrent deferred tax assets and (liabilities): | | |
| Book depreciation in excess of tax depreciation | (2,413) | (2,925) |
| Difference between book and tax basis in plant and equipment and identifiable intangibles resulting from pushdown accounting | (23,458) | -- |
| Net operating loss carryforwards | 564 | 3,331 |
| Gross noncurrent deferred net tax (liabilities) and assets | (25,307) | 406 |
| Less: deferred tax valuation allowances | -- | (2,320) |
| Total net deferred tax (liabilities) and assets | $(12,707) | $ 8,560 |

10. RESTRUCTURING

In the first quarter of 1996, the Company decided to close a steel foundry at one of its operations. In connection with this restructuring of its operations, the Company charged $4,500 to operating income for the year ended December 31, 1996, primarily for severance payments and pension benefits associated with work force reductions of 43 foundry employees, of which 35 were hourly and 8 were salaried. Other exit costs associated with the shutdown of $100, $500 and $200 were charged to operating income in 1997, 1998 and 1999, respectively.

| | |
|---|---|
| Operational restructuring reserve at March 31, 1996 | $ 4,500 |
| Payments applied against restructuring reserve in 1996 | (405) |
| Operational restructuring reserve at December 31, 1996 | 4,095 |
| Payments applied against restructuring reserve in 1997 | (4,095) |
| Operational restructuring reserve at December 31, 1997 | $ -- |

In the first quarter of 1997, the Company approved a restructuring plan to close the pattern makers operations and to consolidate the administration of two of its operations. Pattern maker and administrative personnel were reduced by 18 employees, of which 6 were hourly and 12 were salaried. Restructuring expense of $1,600 was charged to operating income for the year ended December 31, 1997. The main components of the restructuring were termination benefits of $1,300 and other expenses of $300, all of which was paid during 1997.

In the fourth quarter of 1997, the Company approved another restructuring plan to reduce administrative and sales personnel, consolidate repair and service operations and discontinue certain product lines. Personnel were reduced by 226 employees, of which 127 were hourly and 99 were salaried. The Company recognized charges of $17,800 to operating income for the year ended December 31, 1997, primarily for severance payments, pension and medical payments and $1,200 for inventory write-offs. Other exit costs associated with the shutdown of $3,100 and $2,400 of inventory write-offs were charged to

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operating income in 1998. The inventory write-offs have been included in cost of goods sold in the respective years.

In connection with the plan described above, the Company has incurred expenses associated with the operational restructuring as follows:

| | |
|---|---|
| Operational restructuring reserve at November 20, 1997.... | $ 17,800 |
| Payments applied against restructuring reserve in 1997.... | (1,045) |
| Operational restructuring reserve at December 31, 1997.... | 16,755 |
| Payments applied against restructuring reserve in 1998.... | (15,385) |
| Operational restructuring reserve at December 31, 1998.... | 1,370 |
| Payments applied against restructuring reserve in 1999.... | (1,370) |
| Operational restructuring reserve at December 31, 1999.... | $ -- |

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors both pension and postretirement plans that cover most domestic employees and certain employees in other countries.

PENSION

The Company's domestic salaried pension plans principally provide benefits based on a career-average earnings formula. The Company's domestic hourly pension plans provide benefits under flat-benefit formulas. Foreign plans provide benefits based on earnings and years of service. Some of the foreign plans require employee contributions based on the employee's earnings. The Company's policy is to fund an amount which could be in excess of the pension cost expensed, subject to the limitations posed by current statutes or tax regulations.

Assets of the domestic pension plans are invested in equity securities, cash equivalents and debt securities. Assets of foreign pension plans are invested principally in equity securities.

OTHER POSTRETIREMENT BENEFITS

The Company funds other postretirement benefit costs principally on a pay-as-you-go basis, with the retiree paying a portion of the costs. In situations where full-time employees retire from the Company between age 55 and 65, most are eligible to receive, at a cost to the retiree, certain health care benefits identical to those available to active employees. After attaining age 65, an eligible retiree's health care benefit coverage becomes coordinated with Medicare, with the retiree paying a portion of the cost of the coverage.





Summary information on the Company's plans at December 31, was as follows:

| | PENSION BENEFITS | | OTHER BENEFITS | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |

| | | | | |
|---|---|---|---|---|
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | $ 92,830 | $ 84,096 | $ 37,923 | $ 30,083 |
| Service cost | 6,920 | 6,584 | 891 | 822 |
| Interest cost | 6,332 | 5,957 | 2,587 | 2,478 |
| Plan participants' contributions | 1,041 | 1,111 | 207 | 168 |
| Amendments | 20 | 915 | -- | -- |
| Plan transfers | 1,348 | -- | -- | -- |
| Actuarial (gain) loss | (1,532) | (1,689) | (2,339) | 6,582 |
| Benefits paid | (4,353) | (4,330) | (2,417) | (2,210) |
| Expenses paid | (265) | (288) | -- | -- |
| Special termination benefit | -- | 39 | -- | -- |
| Foreign exchange translation | (2,613) | 435 | -- | -- |
| Benefit obligation at end of year | 99,728 | 92,830 | 36,852 | 37,923 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | 68,096 | 54,489 | -- | -- |
| Actual return on plan assets | 7,454 | 8,496 | -- | -- |
| Employer contribution | 11,203 | 7,046 | -- | -- |
| Plan participants' contributions | 1,041 | 1,111 | -- | -- |
| Benefits paid | (3,530) | (2,451) | -- | -- |
| Expenses paid | (265) | (288) | -- | -- |
| Foreign exchange translation | (561) | (307) | -- | -- |
| Fair value of plan assets at end of year | 83,438 | 68,096 | -- | -- |
| Funded status | (16,290) | (24,734) | (36,852) | (37,923) |
| Unrecognized net actuarial (gain) | (4,797) | (7,763) | (3,902) | (5,407) |
| Unrecognized prior service cost | 4,470 | 8,780 | (3,603) | (7,695) |
| Unrecognized transition obligation | 1,660 | 3,798 | -- | -- |
| Net amount recognized | $(14,957) | $(19,919) | $(44,357) | $(51,025) |
| Amounts recognized in the balance sheet consist of: | | | | |
| Prepaid (accrued) benefit cost | $ 408 | $ (2,244) | $ -- | $ -- |
| Accrued benefit liability | (16,049) | (17,918) | (44,357) | (51,025) |
| Intangible asset | 684 | 243 | -- | -- |
| Net amount recognized | $(14,957) | $(19,919) | $(44,357) | $(51,025) |





Weighted-average assumptions as of December 31 were as follows:

| | PENSION BENEFITS | | OTHER BENEFITS | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Discount rate | | | | |
| U.S. plans | 7.5% | 6.8% | 7.5% | 6.8% |
| Foreign plans | 6.0% | 6.3% | -- | -- |
| Expected return on plan assets | | | | |
| U.S. plans | 9.0% | 9.0% | -- | -- |
| Foreign plans | 7.8% | 8.0% | -- | -- |
| Rate of compensation increase | | | | |
| U.S. plans | 5.3% | 4.5% | -- | -- |
| Foreign plans | 3.5% | 3.9% | -- | -- |

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase at 6.0 percent for pre-65 benefits and 5.7 percent for post-65 benefits from 1999 to 2000. The rate was assumed to decrease gradually to 4.5 percent by 2003 and remain at that level thereafter.

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | PENSION BENEFITS | | | OTHER BENEFITS | | |
|---|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Components of net periodic benefit cost | | | | | | |
| Service cost | $ 6,920 | $ 6,584 | $ 6,327 | $ 891 | $ 822 | $ 630 |
| Interest cost | 6,332 | 5,957 | 5,420 | 2,587 | 2,478 | 2,024 |
| Expected return on net assets | (6,020) | (5,015) | (3,609) | -- | -- | -- |
| Amortization of transition obligation | 701 | 713 | 709 | -- | -- | -- |
| Amortization of prior service cost | 1,232 | 1,016 | 1,063 | (589) | (589) | (589) |
| Recognized net actuarial gain | (42) | (162) | (52) | (96) | (232) | (790) |
| Net periodic benefit cost | $ 9,123 | $ 9,093 | $ 9,858 | $2,793 | $2,479 | $1,275 |

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $73,203, $60,456, and $50,284, respectively, as of December 31, 1999, and $70,258, $59,916, and $41,871, respectively, as of December 31, 1998.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percent-point change in assumed health care cost trend rates would have the following effects:

| | 1-PERCENTAGE POINT INCREASE | 1-PERCENTAGE POINT DECREASE |
|---|---|---|
| Effect on total of service and interest cost components | $ 250 | $ 186 |
| Effect on postretirement benefit obligation | $2,948 | $2,690 |

Most of the Company's domestic employees are covered by savings and other defined contribution plans. Employer contributions are determined based on criteria specific to the individual plans and amounted to $3,301, $3,384 and $3,367 in 1999, 1998 and 1997, respectively.





The Company's contribution relating to foreign defined contribution plans, insured plans and other foreign benefit plans were $1,726, $2,514 and $2,320 in 1999, 1998 and 1997 respectively.

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company engaged in sales and purchases of manufactured products with the Original Partners. Ingersoll-Rand provides services, such as accounting, legal and tax services to the Company. For this the Company paid a flat fee of $3,600 in 1999, 1998 and 1997. The fee was determined by mutual agreement of the Original Partners based on the estimated costs of the services provided. Management believes that the fee is reasonable, but may not necessarily be indicative of the costs that would have been incurred had the Company performed these functions.

The Company recorded sales of $1,185, $1,979 and $3,124 and purchases of $5,087, $5,550 and $4,409 with the Original Partners and their affiliates in 1999, 1998 and 1997, respectively. They received rent from the Original Partners and their affiliates of $688, $749 and $668 in 1999, 1998 and 1997,

respectively. The Company performs accounting services for several foreign locations of Ingersoll-Rand for a fee of $647, $1,003 and $1,197 in 1999, 1998 and 1997, respectively.

Due to Ingersoll-Rand's intent to sell the Company, Ingersoll-Rand does not plan to reimburse the Company for advances and loans from the Company. Therefore the advances and loans due from Ingersoll-Rand have been offset and charged to Contributed Capital at December 31, 1999.

Amounts due (to) from Original Partners are summarized as follows:

| | DECEMBER 31, 1999 | | |
|---|---|---|---|
| | INGERSOLL-RAND | HALLIBURTON | TOTAL |
| Trade accounts receivable | $ 1,885 | $ 39 | $ 1,924 |
| Accounts payable | $(14,125) | $ -- | $(14,125) |

| | DECEMBER 31, 1998 | | |
|---|---|---|---|
| | INGERSOLL-RAND | HALLIBURTON | TOTAL |
| Trade accounts receivable | $ 1,406 | $ 64 | $ 1,470 |
| Advances and loans | $ 35,834 | $ 18,989 | $ 54,823 |
| | $ 37,240 | $ 19,053 | $ 56,293 |
| Advances -- non-current | $109,098 | $118,436 | $227,534 |
| Accounts payable | $ (9,602) | $ -- | $ (9,602) |

Foreign loans, included in advances above, bear interest at rates from 2.5% to 4.75%. Interest income from these advances of $2,696, $4,601 and $3,025 have been included in other income in 1999, 1998 and 1997. Other third party interest income, also included in other income, was $1,315, $2,130 and $2,437 in 1999, 1998 and 1997.

13. FINANCIAL INSTRUMENTS

The Company maintains significant operations in foreign countries. As a result of these global activities, the Company is exposed to changes in foreign currency exchange rates, which affect the results of operations and financial condition. The Company manages exposure to changes in foreign currency exchange rates through its normal operating and financing activities, as well as through the use of financial instruments.



Generally, the only financial instruments the Company utilizes are forward exchange contracts.

The purpose of the Company's hedging activities is to mitigate the impact of changes in foreign currency exchange rates. The Company attempts to hedge transaction exposures through natural offsets. To the extent that this is not practicable, major exposure areas considered for hedging include foreign currency denominated receivables and payables, intercompany loans, firm committed transactions, anticipated sales and purchases, and dividends relating to foreign subsidiaries. The following table summarizes by major currency the contractual amounts of the Company's forward contracts in U.S. dollars. Foreign

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

currency amounts are translated at year-end rates at the respective reporting date. The "buy" amounts represent the U.S. equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. equivalents of commitments to sell foreign currencies. Some of the forward contracts involve the exchange of two foreign currencies according to local needs in foreign subsidiaries.

At December 31, the contractual amounts were:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | BUY | SELL | BUY | SELL |
| British pounds | $26,719 | $3,359 | $12,647 | $ 4,112 |
| Deutsche marks | 748 | -- | 3,501 | 878 |
| Dutch guilders | -- | -- | 969 | 969 |
| French francs | 2,105 | -- | -- | 313 |
| Italian lire | 11,797 | -- | 9,785 | -- |
| Euros | 26,649 | 3,096 | -- | -- |
| Spanish pesetas | 4,421 | 1,386 | 540 | 4,571 |
| Others | 5,191 | -- | 398 | 2,654 |
| Total | $77,630 | $7,841 | $27,840 | $13,497 |

Forward contracts utilized by the Company had maturities of one to twelve months.

The Company's forward contracts that hedge transactions or firm commitments do not subject the Company to risk due to foreign exchange rate movement, since gains and losses on these contracts generally offset losses and gains on the assets, liabilities or other transactions being hedged. Contracts purchased to mitigate the variability of future cash flows of foreign subsidiaries bear market risk to the extent actual transacted amounts vary from the forecasted amounts. All gains and losses on these contracts have been included in earnings.

The counterparties to the Company's forward contracts consist of a number of major international financial institutions. The credit ratings and concentration of risk of these financial institutions are monitored on a continuing basis and present no significant credit risk to the Company.





The following table summarizes the estimated fair value of the Company's remaining financial instruments at December 31:

| | 1999 | 1998 |
|---|---|---|
| Forward contracts | | |
| Contract (notional) amounts: | | |
| Buy contracts | $77,630 | $27,840 |
| Sell contracts | 7,841 | 13,497 |
| Fair (market) values: | | |
| Buy contracts | 77,910 | 21,312 |
| Sell contracts | 7,884 | 14,493 |

Fair value of forward contracts are based on dealer quotes at the respective reporting dates.

14. STOCK BASED COMPENSATION PLANS

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

The Company offers two stock based compensation plans to certain eligible employees. These programs -- the Ingersoll-Dresser Pump Phantom Stock Option Plan (the "Phantom Stock Plan") and the Ingersoll-Dresser Pump Long-Term Incentive Performance Plan (the "Long-Term Incentive Plan") -- are designed to reward the executive management of the Company for their contribution to the long term success of the Company and its Original Partners.

Under the terms of the Phantom Stock Plan eligible employees receive phantom options, the exercise price of which is based on the fair market value of the common stock of the Original Partners. These phantom options vest ratably over a three-year period and expire 10 years after the date of the grant. Upon exercise, the phantom option holder is entitled to a cash payment equal to the difference between the fair market value of the Original Partners' common stock at the date of grant and the date the phantom option is exercised. The Company made an initial grant of phantom options to eligible employees on January 1, 1995, although the grant was deemed to have taken place on January 1, 1994 for vesting purposes. The maximum number of shares of common stock, with respect to which phantom options may be exercised pursuant to the Phantom Stock Option Plan, is 5,000,000 each of Ingersoll-Rand and Halliburton (formerly Dresser Industries). The phantom options based on the fair market value of the Ingersoll-Rand common stock can be exercised independently of the phantom options based on the Halliburton common stock, and vice versa. The Phantom Stock Plan does not issue shares, or options to purchase shares, in the common stock of the Original Partners. Subsequent to the purchase of Halliburton's interest in the Company by IDP Acquisition, LLC, the Phantom Stock Plan continues to be based on the common stock values of the Original Partners.





Changes in phantom options outstanding under the Phantom Stock Plan were as follows:

| | SHARES ON WHICH PHANTOM OPTIONS ARE BASED | | OPTION PRICE RANGE PER SHARE | |
|---|---|---|---|---|
| | INGERSOLL-RAND | HALLIBURTON | INGERSOLL-RAND | HALLIBURTON |
| As of December 31, 1996..... | 241,905 | 340,226 | $21.25-$23.25 | $19.13-$24.32 |
| Granted..... | 155,296 | 127,886 | 29.88 | 31.19 |
| Exercised..... | (134,254) | (197,395) | 21.25- 23.25 | 19.13- 24.32 |
| As of December 31, 1997..... | 262,947 | 270,717 | $21.25-$29.88 | $19.13-$31.19 |
| Granted..... | 147,917 | 169,463 | 40.69 | 41.81 |
| Exercised..... | (100,270) | (89,440) | 21.25- 29.88 | 19.13- 31.19 |
| As of December 31, 1998..... | 310,594 | 350,740 | $21.25-$40.69 | $19.13-$41.81 |
| Granted..... | 90,007 | 84,899 | 47.31 | 29.66 |
| Exercised..... | (133,331) | (51,316) | 21.25- 40.69 | 19.13- 41.81 |
| As of December 31, 1999..... | 267,270 | 384,323 | $21.25-$47.31 | $19.13-$41.81 |

The following table summarizes information concerning currently outstanding and exercisable phantom options:

| INGERSOLL-RAND | | | |
|---|---|---|---|
| OPTION PRICE | OPTIONS OUTSTANDING AT DECEMBER 31, 1999 | OUTSTANDING OPTIONS REMAINING LIFE | OPTIONS EXERCISABLE AT DECEMBER 31, 1999 |
| ------ | ---------- | ---------- | ---------- |

| | | | |
|---|---|---|---|
| $21.25 | 4,473 | 5 | 4,473 |
| 23.25 | 21,049 | 6 | 21,049 |
| 29.88 | 38,037 | 7 | 2,800 |
| 40.69 | 113,704 | 8 | 19,848 |
| 47.31 | 90,007 | 9 | 29,972 |

| HALLIBURTON | | | |
|---|---|---|---|
| OPTION PRICE | OPTIONS OUTSTANDING AT DECEMBER 31, 1999 | OUTSTANDING OPTIONS REMAINING LIFE | OPTIONS EXERCISABLE AT DECEMBER 31, 1999 |
| $19.13 | 4,637 | 5 | 4,637 |
| 24.31 | 60,868 | 6 | 60,868 |
| 31.19 | 70,324 | 7 | 44,221 |
| 41.81 | 163,595 | 8 | 50,741 |
| 29.66 | 84,899 | 9 | 28,271 |

Under the terms of the Long-Term Incentive Plan, qualifying employees were awarded Ingersoll-Dresser Performance Units, which were based upon the value of one share of Ingersoll-Rand common stock and one share of Halliburton common stock. Cash payments were awarded to participants based on increases in the value of the Original Partners' common stock, and the return on invested capital of the Company. The Plan was based on a four-year cycle that ended on December 31, 1998. An interim payment was made after two years and the final payment was paid in February 1999. In the period between payouts, the increase in the value of the units was credited to individual participant accounts in the form of so-called common stock equivalents. The number of common stock equivalents credited to participants' accounts at December 31, 1998, was 42,238. The Long-Term Incentive Plan does not issue shares, or options to purchase shares, in the common stock of the Original Partners.





As permitted by SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"), the Company continues to account for its stock-based compensation plans in accordance with Accounting Principles Board Option No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, compensation expense of $4,163, $4,257 and $10,100 has been recognized in operating income for the years ended December 31, 1999, 1998 and 1997, respectively. Due to the nature of the plans, as described above, the Company determined that had compensation cost been determined consistent with the methodology presented under SFAS 123, there would be no impact on the Company's net income.

15. BUSINESS SEGMENT INFORMATION

Effective January 1, 1998, the Company adopted SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information.," SFAS No. 131 requires disclosure of certain financial and descriptive information about operating segments. In addition, SFAS No. 131 requires disclosures about products and services, and geographic areas. Operating segments are defined as components of a Company engaging in business activities for which separate financial information is available and evaluated regularly by the chief operating decision maker in assessing performance and allocating resources.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, except that the operating segments results are prepared on a management basis that is consistent with the manner in which the Company desegregates financial information for internal review and decision making. The Company evaluates performance based on operating income contribution rates.

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

INDUSTRIAL PRODUCTS

The Industrial Products Segment refers to operations that produce standard products typically furnished to customers requiring a low level of customization. These pumps are largely sold through distributors and serve a variety of general manufacturing applications.

ENGINEERED PRODUCTS

The Engineered Products Segment refers to operations that produce custom engineered pumps based on client specifications. These pumps service the oil production and refining, chemical process, marine, agricultural and electric utility markets.





A summary of operations by reportable segments for the years ended December 31, was as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| INDUSTRIAL PRODUCTS | | | |
| Sales | $268,656 | $330,084 | $331,075 |
| Operating income | $ 11,907 | $ 30,331 | $ 33,973 |
| Operating income as a percentage of sales | 4.4% | 9.2% | 10.3% |
| Depreciation and amortization | $ 11,184 | $ 7,802 | $ 8,078 |
| ENGINEERED PRODUCTS | | | |
| Sales | $569,734 | $577,084 | $534,017 |
| Operating income | $ 48,431 | $ 47,522 | $ 31,121 |
| Operating income as a percentage of sales | 8.5% | 8.2% | 5.8% |
| Depreciation and amortization | $ 7,067 | $ 11,169 | $ 12,018 |
| TOTAL | | | |
| Sales | $838,390 | $907,168 | $865,092 |
| Operating income from reportable segments | 60,338 | 77,853 | 65,094 |
| Restructuring expense | 200 | 3,600 | 19,500 |
| Unallocated corporate (income) expenses | (2,276) | 4,471 | 3,924 |
| Total operating income | $ 62,414 | $ 69,782 | $ 41,670 |
| Operating income as a percentage of sales | 7.4% | 7.7% | 4.8% |
| Depreciation and amortization | $ 18,251 | $ 18,971 | $ 20,096 |

Geographic customer sales by destination for the years ended December 31 were as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| SALES | | | |
| United States | $353,756 | $344,923 | $291,100 |
| Foreign | 484,634 | 562,245 | 573,992 |
| Total | $838,390 | $907,168 | $865,092 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

Long-lived asset information by geographic area as of December 31 was as follows:

| | 1999 | 1998 |
|---|---|---|
| Long-lived assets | | |
| United States | $268,214 | $ 68,337 |
| Foreign | 142,010 | 67,500 |
| Due from partners | -- | 227,534 |
| Total | $410,224 | $363,371 |





16. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

On August 8, 2000, Flowserve Corporation ("Flowserve") acquired the Company from the Partners. In connection with its purchase of the Company, Flowserve issued unsecured senior subordinated notes. The notes will be unconditionally guaranteed, jointly and severally, by certain subsidiaries of Flowserve, including its existing and subsequently acquired domestic subsidiaries.

Accordingly, the following condensed consolidating financial information presents:

(1) Condensed consolidating financial statements at December 31, 1999 and 1998 and for the years ended December 31, 1999, 1998 and 1997, of (a) the guarantor subsidiaries ("domestic"); (b) the nonguarantor subsidiaries ("foreign"); and (c) the Company on a consolidated basis, and

(2) Elimination entries necessary to consolidate the guarantor and nonguarantor subsidiaries.

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





Separate financial statements for the guarantor subsidiaries and the nonguarantor subsidiaries are not presented because management believes that such financial statements would not be meaningful to investors.

CONDENSED CONSOLIDATED BALANCE SHEET

| | DECEMBER 31, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 6,038 | $ 43,821 | $ -- | $ 49,859 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | | | | |
|---|---|---|---|---|
| Marketable securities | -- | 3,268 | -- | 3,268 |
| Accounts and notes receivable, net | 81,168 | 119,047 | -- | 200,215 |
| Accounts receivable from affiliates | 3,765 | 50,984 | (54,749) | -- |
| Due from partners | 1,547 | 377 | -- | 1,924 |
| Inventories, net of progress payments | 61,930 | 47,240 | 1,050 | 110,220 |
| Other current assets | 2,724 | 18,008 | -- | 20,732 |
| | 157,172 | 282,745 | (53,699) | 386,218 |
| Investment in affiliates | 180,437 | -- | (180,437) | -- |
| Property, plant and equipment, at cost: | 145,237 | 143,330 | (69) | 288,498 |
| Less -- accumulated depreciation | (55,248) | (58,869) | 23 | (114,094) |
| | 89,989 | 84,461 | (46) | 174,404 |
| Intangibles | 65,943 | 12,147 | -- | 78,090 |
| Goodwill | 112,783 | 28,664 | -- | 141,447 |
| Other assets | 11,064 | 3,666 | 1,553 | 16,283 |
| Total assets | $617,388 | $411,683 | $ (232,629) | $ 796,442 |
| LIABILITIES AND PARTNERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Trade accounts payable and accruals | $ 72,292 | $122,593 | $ 158 | $ 195,043 |
| Accounts payable from affiliates | 48,589 | 5,245 | (53,834) | -- |
| Due to partners | 13,538 | 587 | -- | 14,125 |
| Other current liabilities | -- | 2,188 | -- | 2,188 |
| | 134,419 | 130,613 | (53,676) | 211,356 |
| Deferred income taxes | -- | 25,307 | -- | 25,307 |
| Postemployment liabilities | 50,689 | 16,470 | -- | 67,159 |
| Other non-current liabilities | 99 | -- | -- | 99 |
| Total liabilities | 185,207 | 172,390 | (53,676) | 303,921 |
| Partners' equity: | | | | |
| Capital Stock | -- | 96,374 | (96,374) | -- |
| Contributed capital | 377,562 | 121,032 | (72,641) | 425,953 |
| Accumulated earnings | 54,619 | 37,657 | 170 | 92,446 |
| | 432,181 | 255,063 | (168,845) | 518,399 |
| Accumulated other comprehensive loss | -- | (15,770) | (10,108) | (25,878) |
| Partners' equity | 432,181 | 239,293 | (178,953) | 492,521 |
| Total liabilities and partners' equity | $617,388 | $411,683 | $ (232,629) | $ 796,442 |





CONDENSED CONSOLIDATED BALANCE SHEET

| | DECEMBER 31, 1998 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ -- | $ 28,456 | $ -- | $ 28,456 |
| Marketable securities | -- | 3,607 | -- | 3,607 |
| Accounts and notes receivable, net | 86,460 | 122,892 | -- | 209,352 |
| Accounts receivable from affiliates | (16,314) | 39,343 | (23,029) | -- |
| Due from partners | 1,246 | 55,047 | -- | 56,293 |
| Inventories, net of progress payments | 64,921 | 50,541 | 593 | 116,055 |
| Other current assets | 4,897 | 18,521 | -- | 23,418 |
| | 141,210 | 318,407 | (22,436) | 437,181 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | | | | |
|---|---|---|---|---|
| Investment in affiliates | 180,437 | | (180,437) | -- |
| Due from partners | 227,534 | -- | -- | 227,534 |
| Property, plant and equipment, at cost: | 175,499 | 179,125 | (68) | 354,556 |
| Less -- accumulated depreciation | (117,743) | (126,017) | 46 | (243,714) |
| | 57,756 | 53,108 | (22) | 110,842 |
| Other assets | 14,471 | 8,972 | 1,552 | 24,995 |
| Total assets | $ 621,408 | $ 380,487 | $(201,343) | $ 800,552 |

LIABILITIES AND PARTNERS' EQUITY

| | | | | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Trade accounts payable and accruals | $ 86,544 | $ 138,443 | $ (160) | $ 224,827 |
| Accounts payable to affiliates | 30,410 | (8,548) | (21,862) | -- |
| Due to partners | 8,963 | 639 | -- | 9,602 |
| Other current liabilities | -- | 5,245 | -- | 5,245 |
| | 125,917 | 135,779 | (22,022) | 239,674 |
| Postemployment liabilities | 57,529 | 22,198 | -- | 79,727 |
| Other non-current liabilities | 112 | 1,943 | -- | 2,055 |
| Total liabilities | 183,558 | 159,920 | (22,022) | 321,456 |
| Partners' equity: | | | | |
| Capital Stock | -- | 96,374 | (96,374) | -- |
| Contributed capital | 360,301 | 89,195 | (72,139) | 377,357 |
| Accumulated earnings | 77,549 | 54,884 | (700) | 131,733 |
| | 437,850 | 240,453 | (169,213) | 509,090 |
| Accumulated other comprehensive loss | -- | (19,886) | (10,108) | (29,994) |
| Partners' equity | 437,850 | 220,567 | (179,321) | 479,096 |
| Total liabilities and partners' equity | $ 621,408 | $ 380,487 | $(201,343) | $ 800,552 |





CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | FOR THE YEAR ENDED DECEMBER 31, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| Net sales | $442,593 | $430,593 | $(34,796) | $838,390 |
| Cost of goods sold | 339,526 | 305,687 | (34,468) | 610,745 |
| Selling, general and administrative expenses | 89,994 | 75,093 | (56) | 165,031 |
| Restructuring charges | 200 | -- | -- | 200 |
| Operating income | 12,873 | 49,813 | (272) | 62,414 |
| Interest expense | -- | 1,362 | -- | 1,362 |
| Dividend Income | 9,562 | -- | (9,562) | -- |
| Other income (expense), net | 7,984 | (538) | -- | 7,446 |
| Earnings before income taxes | 30,419 | 47,913 | (9,834) | 68,498 |
| Provision for income taxes | 872 | 18,093 | -- | 18,965 |
| Net earnings | $ 29,547 | $ 29,820 | $ (9,834) | $ 49,533 |

| | FOR THE YEAR ENDED DECEMBER 31, 1998 |
|---|---|

| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
|---|---|---|---|---|
| Net sales | $466,081 | $476,693 | $ (35,606) | $907,168 |
| Cost of goods sold | 353,540 | 343,093 | (35,566) | 661,067 |
| Selling, general and administrative expenses | 94,693 | 78,026 | -- | 172,719 |
| Restructuring charges | 2,200 | 1,440 | (40) | 3,600 |
| Operating income | 15,648 | 54,134 | -- | 69,782 |
| Interest expense | -- | 1,620 | -- | 1,620 |
| Dividend Income | 27,085 | -- | (27,085) | -- |
| Other income (expense), net | 6,501 | 560 | -- | 7,061 |
| Earnings before income taxes | 49,234 | 53,074 | (27,085) | 75,223 |
| Provision for income taxes | 515 | 16,058 | -- | 16,573 |
| Net earnings | $ 48,719 | $ 37,016 | $ (27,085) | $ 58,650 |

| | FOR THE YEAR ENDED DECEMBER 31, 1997 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| Net sales | $443,404 | $460,683 | $ (38,995) | $865,092 |
| Cost of goods sold | 337,637 | 338,416 | (38,880) | 637,173 |
| Selling, general and administrative expenses | 85,735 | 81,176 | (162) | 166,749 |
| Restructuring charges | 4,804 | 14,696 | -- | 19,500 |
| Operating income | 15,228 | 26,395 | 47 | 41,670 |
| Interest expense | -- | 1,316 | -- | 1,316 |
| Dividend income | 713 | -- | (713) | -- |
| Other income (expense), net | 2,196 | 2,006 | -- | 4,202 |
| Earnings before income taxes | 18,137 | 27,085 | (666) | 44,556 |
| Provision for income taxes | 572 | 12,656 | -- | 13,228 |
| Net earnings | $ 17,565 | $ 14,429 | $ (666) | $ 31,328 |





CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | FOR THE YEAR ENDED DECEMBER 31, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net earnings | $ 29,547 | $ 29,820 | $ (9,834) | $ 49,533 |
| Adjustments to arrive at net cash provided by operating activities: | | | | |
| Depreciation and amortization | 9,775 | 8,476 | -- | 18,251 |
| Loss (gain) on sale of property, plant and equipment | 508 | -- | -- | 508 |
| Equity earnings/losses, net of dividends | (284) | -- | -- | (284) |
| Deferred income taxes | -- | (214) | -- | (214) |
| Other non-cash activity | 2,500 | -- | -- | 2,500 |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in assets | (7,836) | (20,554) | 31,263 | 2,873 |
| (Decrease) increase in liabilities | 3,890 | 7,479 | (30,991) | (19,622) |
| Net cash provided by operating activities | 38,100 | 25,007 | (9,562) | 53,545 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | | | | |
|---|---|---|---|---|
| Capital expenditures | (8,788) | (9,430) | -- | (18,218) |
| Increase in marketable securities | -- | (178) | -- | (178) |
| Cash (invested in) or advances (to) from equity companies | (61) | 761 | -- | 700 |
| Net cash used in investing activities | (8,849) | (8,847) | -- | (17,696) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Increase (decrease) in short-term borrowings | -- | 684 | -- | 684 |
| Dividends paid by affiliates | -- | (9,562) | 9,562 | -- |
| (Increase) decrease in Due from partners | (23,213) | 10,570 | -- | (12,643) |
| Net cash used in financing activities | (23,213) | 1,692 | 9,562 | (11,959) |
| Effect of exchange rate changes on cash and cash equivalents | -- | (2,487) | -- | (2,487) |
| Net increase (decrease) in cash and cash equivalents | 6,038 | 15,365 | -- | 21,403 |
| Cash and cash equivalents -- beginning of year | -- | 28,456 | -- | 28,456 |
| Cash and cash equivalents -- end of year | $ 6,038 | $ 43,821 | $ -- | $ 49,859 |





CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | FOR THE YEAR ENDED DECEMBER 31, 1998 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net earnings | $ 48,719 | $ 37,016 | $(27,085) | $ 58,650 |
| Adjustments to arrive at net cash provided by operating activities: | | | | |
| Depreciation and amortization | 9,649 | 9,322 | -- | 18,971 |
| Loss(gain) on sale of property, plant and equipment | (210) | (485) | -- | (695) |
| Equity earnings/losses, net of dividends | 136 | -- | -- | 136 |
| Deferred income taxes | -- | (874) | -- | (874) |
| Other non-cash activity | 621 | 832 | -- | 1,453 |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in assets | 7,469 | (19,459) | 1,827 | (10,163) |
| (Decrease) increase in liabilities | 26,652 | (14,875) | (1,827) | 9,950 |
| Net cash provided by operating activities | 93,036 | 11,477 | (27,085) | 77,428 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Capital expenditures | (6,731) | (13,554) | -- | (20,285) |
| Proceeds from sales of property, plant and equipment | 518 | 1,210 | -- | 1,728 |
| Increase in marketable securities | -- | (369) | -- | (369) |
| Cash (invested in) or advances (to) from equity companies | 329 | 375 | -- | 704 |
| Net cash used in investing activities | (5,884) | (12,338) | -- | (18,222) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Increase (decrease) in short-term borrowings | -- | (510) | -- | (510) |
| Dividends paid by affiliates | -- | (27,085) | 27,085 | -- |
| (Increase) decrease in Due from partners | (87,500) | 18,180 | -- | (69,320) |
| Net cash used in financing activities | (87,500) | (9,415) | 27,085 | (69,830) |
| Effect of exchange rate changes on cash and cash equivalents | -- | 680 | -- | 680 |
| Net increase (decrease) in cash and cash | | | | |

| | | | | |
|---|---|---|---|---|
| equivalents | (348) | (9,596) | -- | (9,944) |
| Cash and cash equivalents -- beginning of year | 348 | 38,052 | -- | 38,400 |
| Cash and cash equivalents -- end of year | $ -- | $ 28,456 | $ -- | $ 28,456 |





INGERSOLL-DRESSER PUMP COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | FOR THE YEAR ENDED DECEMBER 31, 1997 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net earnings | $ 17,559 | $ 14,435 | $ (666) | $ 31,328 |
| Adjustments to arrive at net cash provided by operating activities: | | | | |
| Depreciation and amortization | 11,395 | 8,701 | -- | 20,096 |
| Loss(gain) on sale of property, plant and equipment | (192) | -- | -- | (192) |
| Equity earnings/losses, net of dividends | 352 | -- | -- | 352 |
| Deferred income taxes | -- | (1,095) | -- | (1,095) |
| Other non-cash activity | -- | 1,392 | -- | 1,392 |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in assets | (11,133) | (8,304) | 809 | (18,628) |
| (Decrease) increase in liabilities | 8,311 | 22,567 | (826) | 30,052 |
| Net cash provided by operating activities | 26,292 | 37,696 | (683) | 63,305 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Capital expenditures | (9,065) | (7,261) | -- | (16,326) |
| Proceeds from sales of property, plant and equipment | 505 | -- | -- | 505 |
| Increase in marketable securities | -- | (294) | -- | (294) |
| Sale (purchase) of investment in affiliates, net | 640 | -- | (640) | -- |
| Cash (invested in) or advances (to) from equity companies | (1,788) | 1,115 | -- | (673) |
| Net cash used in investing activities | (9,708) | (6,440) | (640) | (16,788) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Increase (decrease) in short-term borrowings | -- | 160 | -- | 160 |
| Return of affiliate capital | -- | (610) | 610 | -- |
| Dividends paid by affiliates | -- | (713) | 713 | -- |
| (Increase) decrease in Due from partners | (16,236) | (26,902) | -- | (43,138) |
| Net cash used in financing activities | (16,236) | (28,065) | 1,323 | (42,978) |
| Effect of exchange rate changes on cash and cash equivalents | -- | (4,143) | -- | (4,143) |
| Net increase (decrease) in cash and cash equivalents | 348 | (952) | -- | (604) |
| Cash and cash equivalents -- beginning of year | -- | 39,004 | -- | 39,004 |
| Cash and cash equivalents -- end of year | $ 348 | $ 38,052 | $ -- | $ 38,400 |





INGERSOLL-DRESSER PUMP COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| | (IN THOUSANDS) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 23,566 | $ 49,859 |
| Marketable securities | 2,043 | 3,268 |
| Accounts and notes receivable, less allowance for doubtful accounts of $9,517 in 2000 and $7,928 in 1999 | 178,848 | 200,215 |
| Due from partners | 1,965 | 1,924 |
| Inventories, net of progress payments | 122,117 | 110,220 |
| Prepaid expenses | 9,390 | 4,888 |
| Deferred income taxes | 8,800 | 12,600 |
| Other current assets | 4,548 | 3,244 |
| | 351,277 | 386,218 |
| Investments in and advances with partially-owned equity companies | 14,145 | 12,279 |
| Property, plant and equipment, at cost: | 281,546 | 288,498 |
| Less -- accumulated depreciation | (116,683) | (114,094) |
| Net property, plant and equipment | 164,863 | 174,404 |
| Intangible assets, net | 75,622 | 78,090 |
| Goodwill, net | 139,675 | 141,447 |
| Other assets | 3,017 | 4,004 |
| Total assets | $ 748,599 | $ 796,442 |
| LIABILITIES AND PARTNERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable and accruals | $ 187,420 | $ 195,043 |
| Due to partners | 188 | 14,125 |
| Customers' advance payments | 2,502 | 886 |
| Short-term borrowings | 768 | 1,302 |
| | 190,878 | 211,356 |
| Deferred income taxes | 24,789 | 25,308 |
| Postemployment liabilities | 67,688 | 67,158 |
| Other non-current liabilities | 90 | 99 |
| Total liabilities | 283,445 | 303,921 |
| Partners' equity: | | |
| Contributed capital | 414,558 | 425,953 |
| Accumulated earnings | 89,982 | 92,446 |
| | 504,540 | 518,399 |
| Accumulated other comprehensive loss | (39,386) | (25,878) |
| Partners' equity | 465,154 | 492,521 |
| Total liabilities and partners' equity | $ 748,599 | $ 796,442 |

The accompanying notes are an integral part of these condensed consolidated financial statements.



INGERSOLL-DRESSER PUMP COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

FOR THE SIX MONTHS

| | ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| Net sales | $363,409 | $399,490 |
| Cost of goods sold | 279,792 | 295,575 |
| Selling, general and administrative expense | 77,672 | 81,317 |
| Operating income | 5,945 | 22,598 |
| Interest expense | 530 | 765 |
| Other income, net | 712 | 3,167 |
| Earnings before income taxes | 6,127 | 25,000 |
| Provision for income taxes | 8,591 | 10,005 |
| Net earnings (loss) | $ (2,464) | $ 14,995 |

The accompanying notes are an integral part of these condensed consolidated financial statements.



INGERSOLL-DRESSER PUMP COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings (loss) | $ (2,464) | $ 14,995 |
| Adjustments to arrive at net cash provided by operating activities: | | |
| Depreciation and amortization | 14,909 | 9,934 |
| Loss(gain) on sale of property, plant and equipment | (52) | (67) |
| Equity earnings/losses, net of dividends | 588 | 286 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets | (2,764) | 35,895 |
| (Decrease) increase in liabilities | (11,920) | (34,642) |
| Net cash (used in) provided by operating activities | (1,703) | 26,401 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (4,804) | (5,886) |
| Proceeds from sales of property, plant and equipment | 348 | 243 |
| Decrease in marketable securities | 975 | 1,470 |
| Cash (invested in) or advances (to) from equity companies | (2,430) | 314 |
| Net cash used in investing activities | (5,911) | (3,859) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (decrease) in short-term borrowings | (532) | 145 |
| Cash transferred to Partners | (16,355) | -- |
| Increase in Due to (from) partners | -- | (26,368) |
| Net cash used in financing activities | (16,887) | (26,223) |
| Effect of exchange rate changes on cash and cash equivalents | (1,792) | (2,333) |
| Net increase (decrease) in cash and cash equivalents | (26,293) | (6,014) |

| | | |
|---|---|---|
| Cash and cash equivalents -- beginning of year..... | 49,859 | 28,456 |
| Cash and cash equivalents -- end of year..... | $ 23,566 | $ 22,442 |

The accompanying notes are an integral part of these condensed consolidated financial statements.



INGERSOLL-DRESSER PUMP COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

NOTE 1

The accompanying unaudited interim financial statements and related notes should be read in conjunction with the consolidated financial statements of Ingersoll-Dresser Pump Company (the "Company") and related notes for the year ended December 31, 1999. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the consolidated unaudited financial position and results of operations for the six months ended June 30, 2000, and 1999.

NOTE 2

On December 30, 1999, IDP Acquisition, LLC, a wholly-owned subsidiary of Ingersoll-Rand, acquired Halliburton's interest in the Company for $377,480. The cost of this acquisition in excess of the book value of Halliburton's 49% interest, $266,951, has been recorded by the Company using pushdown accounting. Accordingly, the excess of the purchase price over the book value of Halliburton's interest was allocated to the net tangible and identifiable intangible assets based on their respective fair values and the balance charged to goodwill. In addition, Halliburton's 49% interest in accumulated earnings and foreign currency translation adjustment were eliminated and charged to contributed capital. The step up in the basis of property, plant and equipment as a result of pushdown accounting are being depreciated over the asset's useful lives of 3-40 years. Identifiable intangibles and goodwill resulting from pushdown accounting are being amortized over their useful lives of 9-40 years, with a weighted average life of 20 years for identifiable intangibles.

NOTE 3

Inventories are generally stated at cost, which is not in excess of market. Cost is based on the first-in, first-out (FIFO) method or average cost. The composition of inventories follows:

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| Raw materials and supplies..... | $ 23,944 | $ 17,430 |
| Work-in-process..... | 55,583 | 46,671 |
| Finished goods..... | 42,590 | 46,119 |
| Total..... | $122,117 | $110,220 |

Work-in-process inventory is stated after deducting customer progress payments of $13,902 and $11,498 in 2000 and 1999, respectively.

NOTE 4

The components of comprehensive income (loss) are as follows:

| | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| Net earnings | $ (2,464) | $ 14,995 |
| Other comprehensive income -- foreign currency translation adjustment | (13,508) | (19,371) |
| Comprehensive income (loss) | $(15,972) | $ (4,376) |





INGERSOLL-DRESSER PUMP COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

NOTE 5

The decrease in earnings (loss) for the six months ended June 30, 2000 of ($2,464) as compared to the six months ended June 30, 1999 is primarily the result of a decrease in sales for the period and the following:

- Operating income for the six months ended June 30, 2000 is negatively impacted by a $3,400 adjustment to increase inventory at December 31, 1999 resulting from pushdown accounting for Ingersoll-Rand's acquisition of the remaining 49% interest in the Company.

- Increased depreciation and amortization expense as a result of applying pushdown accounting as described in Note 2 of $5,573.

- Increase in effective tax rate as a result of earnings in foreign jurisdictions with higher tax rates and losses in the domestic business, which has no tax impact as a result of the Company being a United States partnership (approximate $6,100 impact).

- Benefit of the change in the Company's vacation policy, effective January 1, 2000, for certain employees such that vacation is earned ratably over the year. Accordingly, included in administrative, selling and service engineering expense for the six months ended June 30, 2000 is a $2,547 reduction in the vacation accrual recorded at December 31, 1999.

NOTE 6

A summary of operations by reportable segment is as follows:

| | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2000 | 1999 |
| Sales | | |
| Engineered products | $235,616 | $262,450 |
| Industrial products | 127,793 | 137,040 |
| Total | $363,409 | $399,490 |
| Operating Income | | |
| Engineered products | $ 5,936 | $ 15,276 |
| Industrial products | 3,505 | 7,749 |
| Unallocated corporate income (expenses) | (3,496) | (427) |
| Total | $ 5,945 | $ 22,598 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

The increase in the unallocated corporate expense is primarily due to the amortization of goodwill and identifiable intangibles related to the pushdown accounting for Ingersoll-Rand's acquisition of the remaining 49% interest in the Company as described in Note 2.

No significant changes in assets by geographic area have occurred since December 31, 1999.

NOTE 7

The Company is involved in various litigations, claims and administrative proceedings, including environmental matters, arising from the normal course of business. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional





information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, management believes that recovery or liability with respect to these matters would not have a material effect on the financial condition or the results of operations of the Company for any year.

The Company has entered into employment contacts with a number of key executive and employees providing severance and stay bonuses, which become effective upon the sale of the Company by Ingersoll-Rand.

NOTE 8

On August 8, 2000, Flowserve Corporation ("Flowserve") acquired the Company from Ingersoll-Rand for $775,000. In connection with its purchase of the Company, Flowserve issued unsecured senior subordinated notes. The notes will be unconditionally guaranteed, jointly and severally, by certain subsidiaries of Flowserve, including its existing and subsequently acquired domestic subsidiaries.

Accordingly, the following condensed consolidating financial information presents:

(1) Condensed consolidating financial statements at June 30, 2000 and December 31, 1999 and for the six months ended June 30, 2000 and 1999, of (a) the guarantor subsidiaries ("domestic"); (b) the nonguarantor subsidiaries ("foreign"); and (c) the Company on a consolidated basis, and

(2) Elimination entries necessary to consolidate the guarantor and nonguarantor subsidiaries.





CONDENSED CONSOLIDATING BALANCE SHEET

| | JUNE 30, 2000 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| ASSETS | | | | |

| | | | | |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 113 | $ 23,453 | $ -- | $ 23,566 |
| Marketable securities | -- | 2,043 | -- | 2,043 |
| Accounts and notes receivable, net | 68,575 | 110,273 | -- | 178,848 |
| Accounts receivable from affiliates | 4,164 | 43,855 | (48,019) | -- |
| Due from partners | 1,756 | 209 | -- | 1,965 |
| Inventories, net of progress payments | 63,003 | 59,293 | (179) | 122,117 |
| Other current assets | 4,288 | 18,450 | -- | 22,738 |
| | 141,899 | 257,576 | (48,198) | 351,277 |
| Investment in affiliates | 180,437 | -- | (180,437) | -- |
| Property, plant and equipment, at cost: | 146,387 | 135,227 | (68) | 281,546 |
| Less -- accumulated depreciation | (60,754) | (55,949) | 20 | (116,683) |
| | 85,633 | 79,278 | (48) | 164,863 |
| Intangibles | 64,152 | 11,470 | -- | 75,622 |
| Goodwill | 111,363 | 28,312 | -- | 139,675 |
| Other assets | 10,655 | 4,954 | 1,553 | 17,162 |
| Total assets | $594,139 | $381,590 | $(227,130) | $ 748,599 |

LIABILITIES AND PARTNERS' EQUITY

| | | | | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Trade accounts payable and accruals | $ 81,908 | $107,975 | $ (2,463) | $ 187,420 |
| Accounts payable from affiliates | 42,561 | 5,101 | (47,662) | -- |
| Due to partners | 18 | 170 | -- | 188 |
| Other current liabilities | -- | 3,270 | -- | 3,270 |
| | 124,487 | 116,516 | (50,125) | 190,878 |
| Deferred income taxes | -- | 24,789 | -- | 24,789 |
| Postemployment liabilities | 51,323 | 16,365 | -- | 67,688 |
| Other non-current liabilities | 90 | -- | -- | 90 |
| Total liabilities | 175,900 | 157,670 | (50,125) | 283,445 |
| Partners' equity: | | | | |
| Capital Stock | -- | 96,374 | (96,374) | -- |
| Contributed capital | 371,507 | 119,509 | (76,458) | 414,558 |
| Accumulated earnings | 46,732 | 37,319 | 5,931 | 89,982 |
| | 418,239 | 253,202 | (166,901) | 504,540 |
| Accumulated other comprehensive loss | -- | (29,282) | (10,104) | (39,386) |
| Partners' equity | 418,239 | 223,920 | (177,005) | 465,154 |
| Total liabilities and partners' equity | $594,139 | $381,590 | $(227,130) | $ 748,599 |





CONDENSED CONSOLIDATING BALANCE SHEET

| | DECEMBER 31, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 6,038 | $ 43,821 | $ -- | $ 49,859 |
| Marketable securities | -- | 3,268 | -- | 3,268 |
| Accounts and notes receivable, net | 81,168 | 119,047 | -- | 200,215 |
| Accounts receivable from affiliates | 3,765 | 50,984 | (54,749) | -- |
| Due from partners | 1,547 | 377 | -- | 1,924 |
| Inventories, net of progress payments | 61,930 | 47,240 | 1,050 | 110,220 |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | | | | |
|---|---|---|---|---|
| Other current assets | 2,724 | 18,008 | -- | 20,732 |
| | 157,172 | 282,745 | (53,699) | 386,218 |
| Investment in affiliates | 180,437 | -- | (180,437) | -- |
| Property, plant and equipment, at cost: | 145,237 | 143,330 | (69) | 288,498 |
| Less -- accumulated depreciation | (55,248) | (58,869) | 23 | (114,094) |
| | 89,989 | 84,461 | (46) | 174,404 |
| Intangibles | 65,943 | 12,147 | -- | 78,090 |
| Goodwill | 112,783 | 28,664 | -- | 141,447 |
| Other assets | 11,064 | 3,666 | 1,553 | 16,283 |
| Total assets | $617,388 | $411,683 | $(232,629) | $ 796,442 |

LIABILITIES AND PARTNERS' EQUITY

| | | | | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Trade accounts payable and accruals | $ 72,292 | $122,593 | $ 158 | $ 195,043 |
| Accounts payable from affiliates | 48,589 | 5,245 | (53,834) | -- |
| Due to partners | 13,538 | 587 | -- | 14,125 |
| Other current liabilities | -- | 2,188 | -- | 2,188 |
| | 134,419 | 130,613 | (53,676) | 211,356 |
| Deferred income taxes | -- | 25,307 | -- | 25,307 |
| Postemployment liabilities | 50,689 | 16,470 | -- | 67,159 |
| Other non-current liabilities | 99 | -- | -- | 99 |
| Total liabilities | 185,207 | 172,390 | (53,676) | 303,921 |
| Partners' equity: | | | | |
| Capital Stock | -- | 96,374 | (96,374) | -- |
| Contributed capital | 377,562 | 121,032 | (72,641) | 425,953 |
| Accumulated earnings | 54,619 | 37,657 | 170 | 92,446 |
| | 432,181 | 255,063 | (168,845) | 518,399 |
| Accumulated other comprehensive loss | -- | (15,770) | (10,108) | (25,878) |
| Partners' equity | 432,181 | 239,293 | (178,953) | 492,521 |
| Total liabilities and partners' equity | $617,388 | $411,683 | $(232,629) | $ 796,442 |





CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | FOR THE YEAR ENDED JUNE 30, 2000 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| Net sales | $192,040 | $186,730 | $(15,361) | $363,409 |
| Cost of goods sold | 156,922 | 138,228 | (15,358) | 279,792 |
| Selling, general and administrative expenses | 47,518 | 35,919 | (5,765) | 77,672 |
| Restructuring charges | -- | -- | -- | -- |
| Operating income | (12,400) | 12,583 | 5,762 | 5,945 |
| Interest expense | -- | 530 | -- | 530 |
| Dividend Income | 2,154 | -- | (2,154) | -- |
| Other income (expense), net | 2,626 | (1,914) | -- | 712 |
| Earnings before income taxes | (7,620) | 10,139 | 3,608 | 6,127 |
| Provision for income taxes | 263 | 8,328 | -- | 8,591 |
| Net earnings | $ (7,883) | $ 1,811 | $ 3,608 | $ (2,464) |

(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | FOR THE YEAR ENDED JUNE 30, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| Net sales | $214,588 | $199,253 | $(14,351) | $399,490 |
| Cost of goods sold | 168,049 | 141,877 | (14,351) | 295,575 |
| Selling, general and administrative expenses | 44,291 | 37,463 | (437) | 81,317 |
| Restructuring charges | -- | -- | -- | -- |
| Operating income | 2,248 | 19,913 | 437 | 22,598 |
| Interest expense | -- | 765 | -- | 765 |
| Dividend Income | 8,993 | -- | (8,993) | -- |
| Other income (expense), net | 3,376 | (209) | -- | 3,167 |
| Earnings before income taxes | 14,617 | 18,939 | (8,556) | 25,000 |
| Provision for income taxes | 669 | 9,336 | -- | 10,005 |
| Net earnings | $ 13,948 | $ 9,603 | $ (8,556) | $ 14,995 |





CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

| | FOR THE SIX MONTHS ENDED JUNE 30, 2000 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net earnings | $(7,883) | $ 1,811 | $ 3,608 | $ (2,464) |
| Adjustments to arrive at net cash provided by operating activities: | | | | |
| Depreciation and amortization | 10,420 | 8,308 | (3,819) | 14,909 |
| Loss(gain) on sale of property, plant and equipment | (52) | -- | -- | (52) |
| Equity earnings/losses, net of dividends | 588 | -- | -- | 588 |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in assets | 9,757 | (7,020) | (5,501) | (2,764) |
| (Decrease) increase in liabilities | (7,469) | (8,009) | 3,558 | (11,920) |
| Net cash provided by operating activities | 5,361 | (4,910) | (2,154) | (1,703) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Capital expenditures | (1,044) | (3,760) | -- | (4,804) |
| Proceeds from sales of property, plant and equipment | 272 | 76 | -- | 348 |
| Increase in marketable securities | -- | 975 | -- | 975 |
| Cash (invested in) or advances (to) from equity companies | (2,430) | -- | -- | (2,430) |
| Net cash used in investing activities | (3,202) | (2,709) | -- | (5,911) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Increase (decrease) in short-term borrowings | -- | (532) | -- | (532) |
| Dividends paid by affiliates | -- | (2,154) | 2,154 | -- |
| Cash transferred to Partners | (8,084) | (8,271) | -- | (16,355) |
| Net cash used in financing activities | (8,084) | (10,957) | 2,154 | (16,887) |
| Effect of exchange rate changes on cash and cash equivalents | -- | (1,792) | -- | (1,792) |
| Net increase (decrease) in cash and cash | | | | |

| | | | | |
|---|---|---|---|---|
| equivalents | (5,925) | (20,368) | -- | (26,293) |
| Cash and cash equivalents -- beginning of year | 6,038 | 43,821 | -- | 49,859 |
| Cash and cash equivalents -- end of year | $ 113 | $ 23,453 | $ -- | $ 23,566 |





INGERSOLL-DRESSER PUMP COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

| | FOR THE SIX MONTHS ENDED JUNE 30, 1999 | | | |
|---|---|---|---|---|
| | DOMESTIC | FOREIGN | ELIMINATIONS | TOTAL |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net earnings | $ 13,948 | $ 9,603 | $(8,556) | $ 14,995 |
| Adjustments to arrive at net cash provided by operating activities: | | | | |
| Depreciation and amortization | 5,157 | 4,777 | -- | 9,934 |
| Loss(gain) on sale of property, plant and equipment | -- | (67) | -- | (67) |
| Equity earnings/losses, net of dividends | 286 | -- | -- | 286 |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in assets | (7,560) | 41,966 | 1,489 | 35,895 |
| (Decrease) increase in liabilities | (16,526) | (16,190) | (1,926) | (34,642) |
| Net cash provided by operating activities | (4,695) | 40,089 | (8,993) | 26,401 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Capital expenditures | (3,148) | (2,738) | -- | (5,886) |
| Proceeds from sales of property, plant and equipment | 243 | -- | -- | 243 |
| Increase in marketable securities | -- | 1,470 | -- | 1,470 |
| Cash (invested in) or advances (to) from equity companies | 314 | -- | -- | 314 |
| Net cash used in investing activities | (2,591) | (1,268) | -- | (3,859) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Increase (decrease) in short-term borrowings | -- | 145 | -- | 145 |
| Dividends paid by affiliates | -- | (8,993) | 8,993 | -- |
| Cash transferred to Partners | -- | -- | -- | |
| (Increase) decrease in Due from partners | 7,304 | (33,672) | -- | (26,368) |
| Net cash used in financing activities | 7,304 | (42,520) | 8,993 | (26,223) |
| Effect of exchange rate changes on cash and cash equivalents | -- | (2,333) | -- | (2,333) |
| Net increase (decrease) in cash and cash equivalents | 18 | (6,032) | -- | (6,014) |
| Cash and cash equivalents -- beginning of year | -- | 28,456 | -- | 28,456 |
| Cash and cash equivalents -- end of year | $ 18 | $ 22,424 | $ -- | $ 22,442 |





PRINCIPAL EXECUTIVE OFFICE OF FLOWSERVE FINANCE B.V.
Parallelweg 6
Etten-Leur 4870 AA
The Netherlands

INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS LLP
2001 Ross Avenue, Suite 1800
Dallas, Texas 75201

LEGAL ADVISORS

To the Company

SHEARMAN & STERLING
599 Lexington Avenue
New York, New York 10022-6069

As to Dutch Law

DE BRAUW BLACKSTONE WESTBROEK N.V.
LINKLATERS & ALLIANCE
Tripolis 300
Burgerweeshuispad 301
Postbus 75084
1070 AB Amsterdam, The Netherlands

TRUSTEE, REGISTRAR, PRINCIPAL PAYING AND TRANSFER AGENT

THE BANK OF NEW YORK
101 Barclay Street, Floor 21 West
New York, New York 10286

LISTING AGENT, PAYING AGENT AND TRANSFER AGENT

BANQUE INTERNATIONALE A LUXEMBOURG S.A.
69 route d'Esch
L-1470 Luxembourg



FLOWSERVE LOGO

Offer To Exchange
12 1/4% Senior Subordinated Notes due 2010
for all Outstanding
12 1/4% Senior Subordinated Notes due 2010
($290,000,000 aggregate principal amount outstanding)

and

Offer To Exchange
12 1/4% Senior Subordinated Notes due 2010
for all Outstanding
12 1/4% Senior Subordinated Notes due 2010
(E100,000,000 aggregate principal amount outstanding)

---

PROSPECTUS

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS EXCHANGE OFFER OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FLOWSERVE. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THOSE TO WHICH IT RELATES, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE NOTES IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.



PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Sections 722 through 726 of the New York Business Corporation Law (the "BCL) grant New York corporations broad powers to indemnify their present and former directors and officers and those of affiliated corporations against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with threatened, pending or completed actions, suits or proceedings to which they are parties or are threatened to be made parties by reason of being or having been such directors or officers, subject to specified conditions and exclusions; give a director or officer who successfully defends an action the right to be so indemnified; and permit a corporation to buy directors' and officers' liability insurance. Such indemnification is not exclusive of any other rights to which those indemnified may be entitled under any by-laws, agreement, vote of shareholders or otherwise.

Section 402(b) of the BCL permits a New York corporation to include in its certificate of incorporation a provision eliminating the potential monetary liability of a director to the corporation or its stockholders for breach of fiduciary duty as a director, provided that such provision shall not eliminate the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for improper payment of dividends, improper purchase of the shares of the corporation, improper distribution of assets to shareholders after dissolution of the corporation and improper making of any loan, or (iv) for any transaction from which the director receives an improper personal benefit or other advantage.

Flowserve's Restated Certificate of Incorporation includes the provision permitted by Section 402(b) of the BCL.

Flowserve's By-Laws provide that Flowserve shall indemnify its present or future directors and officers from and against any and all liabilities and expenses to the maximum extent permitted by the BCL as the same presently exists or to the greater extent permitted by any amendment hereafter adopted.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

See the index to exhibits appears immediately following the signature pages of this Amendment to the Registration Statement.

(b) Financial Statement Schedules

Not applicable

ITEM 22. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities securities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.





The undersigned Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of Form S-4 within one business day of receipt of such request, and to send the incorporated documents by first class mail or other

equally prompt means. This includes information contained in documents filed subsequent to the effective date of this Registration Statement through the date of responding to the request.

The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction that was not the subject of and included in the Registration Statement when it became effective.



## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Irving, Texas on the 26th day of September, 2000.

FLOWSERVE CORPORATION, as Registrant

By: /s/ C. SCOTT GREER
---
Name: C. Scott Greer
Title: Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on the 26th day of September, 2000. Each person whose signature appears below hereby authorizes Ronald F. Shuff and Renee J. Hornbaker and each of them, with full power of substitution, to execute in the name and on behalf of such person any amendment or any post-effective amendment to this Registration Statement and to file the same, with any exhibits thereto and other documents in connection therewith, making such changes in this Registration Statement as the Registrant deems appropriate, and appoints Ronald F. Shuff and Renee J. Hornbaker and each of them, with full power of substitution, attorney-in-fact to sign any amendment and any post-effective amendment to this Registration Statement and to file the same, with any exhibits thereto and other documents in connection therewith.

| SIGNATURES | TITLE |
|---|---|
| /s/ C. SCOTT GREER<br>C. Scott Greer | Chairman, President and Chief Executive Officer (Principal Executive Officer) |
| /s/ RENEE J. HORNBAKER<br>Renee J. Hornbaker | Vice President and Chief Financial Officer (Principal Financial Officer) |
| /s/ RICK L. JOHNSON<br>Rick L. Johnson | Vice President Business Development and Controller (Principal Accounting Officer) |
| /s/ WILLIAM C. RUSNACK<br>William C. Rusnack | Director, Chairman of Audit/Finance Committee |
| /s/ DIANE C. HARRIS<br>Diane C. Harris | Director, Member Audit/Finance Committee |
| /s/ CHARLES M. RAMPACEK<br>Charles M. Rampacek | Director, Member Audit/Finance Committee |
| /s/ JAMES O. ROLLANS<br>James O. Rollans | Director, Member Audit/Finance Committee |



## INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 2.1* | -- Agreement and Plan of Merger dated as of May 6, 1997, among the Registrant, Bruin Acquisition Corp. and BW/IP, Inc. ("BW/IP") was filed as Annex 1 to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997. |
| 2.2* | -- Agreement and Plan of Merger among Flowserve Corporation, Forrest Acquisition Sub., Inc. and Innovative Valve Technologies, Inc., dated as of November 18, 1999, was filed as Exhibit 99(c)(1) to the Schedule 14D-1 Tender Offer Statement and Statement on Schedule 13D dated November 22, 1999. |
| 2.3* | -- Purchase Agreement among the Registrant, Flowserve RED Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company dated as of February 9, 2000 was filed as Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000. |
| 2.4* | -- Amendment No. 1 dated as of July 14, 2000 to the Purchase Agreement dated as of February 9, 2000 by and among the Registrant, Flowserve Red Corporation, IDP Acquisition, LLC and Ingersoll-Rand Company was filed as Exhibit 2.1 to the Registrant's Form 8-A on July 20, 2000 |
| 3.1* | -- 1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988. |
| 3.2* | -- 1989 Amendment to Certificate of Incorporation was filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989. |
| 3.3* | -- By-Laws of The Duriron Company, Inc. (as restated) were filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987. |
| 3.4* | -- 1996 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995. |
| 3.5* | -- Amendment No. 1 to Restated Bylaws was filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995. |
| 3.6* | -- April 1997 Certificate of Amendment of Certificate of Incorporation was filed as part of Annex VI to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997. |
| 3.7* | -- July 1997 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.6 to the Registrant's Quarterly Report on Form 10-Q, for the Quarter ended June 30, 1997. |
| 4.1* | -- Lease agreement and indenture, dated as of January 1, 1995 and bond purchase agreement dated January 27, 1995, in connection with an 8% Taxable Industrial Development Revenue Bond, City of Albuquerque, New Mexico. (Relates to a class of indebtedness that does not exceed 10% of the total assets of the Registrant. The Registrant will furnish a copy of the documents to the SEC upon request.) |
| 4.2* | -- Rights Agreement dated as of August 1, 1986 between the Registrant and BankOne, N.A., as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificate which was filed as Exhibit 1 to the Registrant's Registration Statement on Form 8-A on August 13, 1986. |
| 4.3* | -- Amendment dated August 1, 1996, to Rights Agreement was filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996. |
| 4.4* | -- Amendment No. 2 dated as of June 1, 1998, to the Rights Agreement dated as of August 13, 1986, and amended as of August 1, 1996, was filed as Exhibit 1 to the Registrant's Form 8-A/A dated June 11, 1998. |



| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 4.5* | -- Rate Swap Agreement in the amount of $25,000,000 between |

| | | |
|---|---|---|
| | | the Registrant and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996. |
| 4.6* | -- | Rate Swap Agreement in the amount of $25,000,000 between the Registrant and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996. |
| 4.7 | -- | Indenture dated as of August 8, 2000, between the Registrant, the guarantors identified therein and The Bank of New York, as trustee for $290,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2000. |
| 4.8 | -- | Indenture dated as of August 8, 2000, between Flowserve Finance B.V., the guarantors identified therein and The Bank of New York, as Trustee for #100,000,000 aggregate principal amount of 12.25% Senior Subordinated Notes due August 15, 2000. |
| 4.9** | -- | Form of Exchange Note. |
| 4.10 | -- | Dollar Notes Registration Rights Agreement dated August 3, 2000, among the Registrant, the Dollar Notes Guarantors, Credit Suisse First Boston, Bank of America Securities Inc, ABN AMRO Incorporated and Banc One Capital Markets, Inc. |
| 4.11 | -- | Euro Notes Registration Rights Agreement dated August 3, 2000, among FFBV, the Euro Notes Guarantors, Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO International Limited and First Chicago Limited. |
| 5.1** | -- | Opinion and Consent of Shearman & Sterling regarding validity of the exchange notes. |
| 8.1** | -- | Opinion and Consent of Shearman & Sterling regarding tax matters. |
| 10.1* | -- | Flowserve Corporation Incentive Compensation Plan for Senior Executives, as amended and restated effective January 1, 1994 (the "Incentive Plan"), was filed as Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993. |
| 10.2* | -- | Amendment No. 1 to the Incentive Plan was filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995. |
| 10.3* | -- | Amendment No. 2 to the Incentive Plan was filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. |
| 10.4* | -- | Amendment No. 3 to the Incentive Plan was filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998. |
| 10.5* | -- | Supplemental Pension Plan for Salaried Employees was filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987. |
| 10.6* | -- | Flowserve Corporation amended and restated Director Deferral Plan was filed as Attachment A to the Registrant's definitive 1996 Proxy Statement filed on March 10, 1996. |
| 10.7* | -- | Form of Change in Control Agreement between all executive officers and the Registrant was filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996. |
| 10.8* | -- | First Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987. |
| 10.9* | -- | Amendment No. 1 to the first Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993. |



| EXHIBIT NO. | | DESCRIPTION |
|---|---|---|
| 10.10* | -- | Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993. |
| 10.11* | -- | Second Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December |

31, 1987.

10.12* -- First Amendment to Second Master Benefit Trust Agreement was filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.

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

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

10.15* -- Flowserve Corporation 1989 Stock Option Plan as amended and restated effective January 1, 1997 was filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.16* -- Flowserve Corporation Second Amendment to the 1989 Stock Option Plan as previously amended and restated was filed as Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

10.17* -- Flowserve Corporation 1989 Restricted Stock Plan (the "1989 Restricted Stock Plan") as amended and restated effective January 1, 1997 was filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.18* -- Amendment No. 1 to the 1989 Restricted Stock Plan as amended and restated was filed as Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

10.19* -- Flowserve Corporation Retirement Compensation Plan for Directors ("Director Retirement Plan") was filed as Exhibit 10.15 to the Registrant's Annual Report to Form 10-K for the year ended December 31, 1988.

10.20* -- Amendment No. 1 to Director Retirement Plan was filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.21* -- The Registrant's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989.

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

10.23* -- Flowserve Corporation Executive Equity Incentive Plan as amended and restated effective July 21, 1999, was filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

10.24* -- Flowserve Corporation Deferred Compensation Plan for Executives was filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.

10.25* -- Executive Life Insurance Plan of Flowserve Corporation was filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.26* -- Executive Long-Term Disability Plan of The Duriron Company, Inc. was filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.



| EXHIBIT NO. | DESCRIPTION |
|---|---|

10.27* -- Flowserve Corporation 1997 Stock Option Plan was included as Exhibit A to the Registrant's 1997 Proxy Statement which was filed on March 17, 1997.

10.28* -- First Amendment to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

10.29* -- Amendment No. 2 to the Flowserve Corporation 1997 Stock Option Plan was filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.

10.30* -- Flowserve Corporation 1999 Stock Option Plan was included as Exhibit A to the Registrant's 1999 Proxy Statement which was filed on March 15, 1999.

| | |
|---|---|
| 10.31* | -- Amendment No. 1 to the Flowserve Corporation 1999 Stock Option Plan was filed as Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999. |
| 10.32* | -- BW/IP International, Inc. Supplemental Executive Retirement Plan as amended and restated was filed as Exhibit 10.27 to the Registrant's Quarterly Report on Form 10-Q for the quarter entered March 31, 1998. |
| 10.33* | -- Flowserve Corporation 1998 Restricted Stock Plan was included as Exhibit A to the Registrant's 1999 Proxy Statement which was filed on April 9, 1998. |
| 10.34* | -- Amendment No. 1 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999. |
| 10.35* | -- Amendment No. 2 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999. |
| 10.36* | -- Amendment No. 1 to the amended and restated Director Deferral Plan was filed as Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997. |
| 10.37* | -- Amendment No. 2 to the amended and restated Director Deferral Plan was filed as Exhibit 10.34 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. |
| 10.38* | -- Form of Employment Agreement between the Registrant and certain executive officers was filed as Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997. |
| 10.39* | -- Employment Agreement, effective July 22, 1997, between the Registrant and Bernard G. Rethore was filed as Exhibit 10.53 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997. |
| 10.40* | -- Amended Employment Agreement, effective November 24, 1999, between the Registrant and Bernard G. Rethore. |
| 10.41* | -- Amendment No. 1 to Amended Employment Agreement, effective February 29, 2000, between the Registrant and Bernard G. Rethore was filed Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. |
| 10.42* | -- Employment Agreement, effective July 1, 1999, between the Registrant and C. Scott Greer was filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999. |
| 10.43* | -- Loan Agreement between the Registrant and C. Scott Greer was filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999. |
| 10.44* | -- Amendments to form of change in control agreement between all executive officers and the Registrant was filed as Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. |



| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 10.45 | -- Credit Agreement among the Registrant, certain of its subsidiaries referred to therein, the lenders referred to therein, Credit Suisse First Boston, New York branch, as syndication agent, Bank of America, N.A., as administrative agent, collateral agent and swingline lender, and ABN-AMRO Bank N.V., Bank One, N.A. and Salomon Smith Barney, Inc., as co-documentation agents, dated August 8,2000. |
| 10.46 | -- Security Agreement among the Registrant, certain of its subsidiaries referred to therein and Bank of America, N.A. dated as of August 8, 2000. |
| 12.1 | -- Statements regarding computation of ratios. |
| 13.1* | -- 1999 Annual Report to Shareholders was filed on the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998. |
| 21.1 | -- Subsidiaries of the Registrant. |
| 23.1 | -- Consent of Ernst & Young LLP. |
| 23.2 | -- Consent of PricewaterhouseCoopers LLP. |

| | | |
|---|---|---|
| 23.3 | -- | Consent of Arthur Andersen. |
| 23.4** | -- | Consent of Shearman & Sterling (included in Exhibit 5.1). |
| 25.1** | -- | Statement of Eligibility of the Trustee, on Form T-1. |
| 27.1* | -- | Financial Data Schedule was filed as Exhibit 27 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000. |
| 99.1* | -- | Press Release dated July 24, 2000, was filed as Exhibit 99.1 on Form 8-K as filed August 2, 2000. |
| 99.2* | -- | Press Release dated July 28, 2000, was filed as Exhibit 99.1 on Form 8-K as filed August 2, 2000. |
| 99.3** | -- | Form of Letter of Transmittal. |
| 99.4** | -- | Form of Notice of Guaranteed Delivery. |
| 99.5** | -- | Form of Exchange Agent Agreement. |

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* Previously filed.

** To be filed by amendment.

EXECUTION COPY

EXHIBIT 4.7

Flowserve Corporation
Issuer

The Guarantors named herein

12-1/4% Senior Subordinated Securities Due 2010

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INDENTURE

Dated as of August 8, 2000

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The Bank of New York
Trustee



CROSS-REFERENCE TABLE

| TIA Section | | Indenture Section |
|---|---|---|
| 310(a)(1) | ..... | 7.10 |
| (a)(2) | ..... | 7.10 |
| (a)(3) | ..... | N.A. |
| (a)(4) | ..... | N.A. |
| (b) | ..... | 7.08; 7.10 |
| (c) | ..... | N.A. |
| 311(a) | ..... | 7.11 |
| (b) | ..... | 7.11 |
| (c) | ..... | N.A. |
| 312(a) | ..... | 2.05 |
| (b) | ..... | 13.03 |
| (c) | ..... | 13.03 |
| 313(a) | ..... | 7.06 |
| (b)(1) | ..... | N.A. |

| | | |
|---|---|---|
| (b)(2) | ..... | 7.06 |
| (c) | ..... | 11.02 |
| (d) | ..... | 7.06 |
| 314(a) | ..... | 4.02; 4.11; 13.02 |
| (b) | ..... | N.A. |
| (c)(1) | ..... | 13.04 |
| (c)(2) | ..... | 13.04 |
| (c)(3) | ..... | N.A. |
| (d) | ..... | N.A. |
| (e) | ..... | 13.05 |
| (f) | ..... | 4.10 |
| 315(a) | ..... | 7.01 |
| (b) | ..... | 7.05; 13.02 |
| (c) | ..... | 7.01 |
| (d) | ..... | 7.01 |
| (e) | ..... | 6.11 |
| 316(a)(last sentence) | ..... | 13.06 |
| (a)(1)(A) | ..... | 6.05 |
| (a)(1)(B) | ..... | 6.04 |
| (a)(2) | ..... | N.A. |
| (b) | ..... | 6.07 |
| 317(a)(1) | ..... | 6.08 |
| (a)(2) | ..... | 6.09 |
| (b) | ..... | 2.04 |
| 318(a) | ..... | 13.01 |

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.



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Discharge of Indenture; Defeasance



ARTICLE 9

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Subordination

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Subsidiary Guaranties



ARTICLE 12

Subordination of Subsidiary Guaranties







ARTICLE 13

Miscellaneous

INDENTURE dated as of August 8, 2000, among Flowserve Corporation, a New York corporation (the "Company"), the GUARANTORS named herein and The Bank of New York, a New York banking corporation (the "Trustee").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Company's Initial Securities, Exchange Securities and Private Exchange Securities (collectively, the "Securities"):

ARTICLE 1

Definitions and Incorporation by Reference

SECTION 1.01. Definitions.

"Acquisition" means the acquisition by the Company, directly or indirectly, of 100% of the partnership interests of Ingersoll-Dresser Pump Company.

"Additional Assets" means any:

(1) property, plant or equipment used in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

"Additional Euro Notes" means, subject to the Company's compliance with Section 4.03, 12-1/4% Senior Subordinated Securities Due 2010 issued from time to time after the Issue Date under the terms of the Euro Notes Indenture (other than pursuant to Section 2.06, 2.07, 2.09 or 3.06 of the Euro Notes Indenture and other than Euro Notes Exchange Securities or Euro Notes Private Exchange Securities (in each case as defined in the Euro Notes



Indenture) issued pursuant to an exchange offer for other Euro Notes outstanding under the Euro Notes Indenture).

"Additional Securities" means, subject to the Company's compliance with Section 4.03, 12-1/4% Senior Subordinated Securities Due 2010 issued from time to time after the Issue Date under the terms of this Indenture (other than pursuant to Section 2.06, 2.07, 2.09 or 3.06 of this Indenture and other than Exchange Securities or Private Exchange Securities issued pursuant to an exchange offer for other Securities outstanding under this Indenture).

"Affiliate" of any specified Person means: (1) any other Person, directly or indirectly, controlling or controlled by; or (2) under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or

indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of Sections 4.04, 4.06 and 4.07 only, "Affiliate" shall also mean any beneficial owner of Capital Stock representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary



(other than, in the case of clauses (1), (2) and (3), (A) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary (or to a Restricted Subsidiary so long as the aggregate fair market value of all assets transferred to Restricted Subsidiaries pursuant to this clause (A) does not exceed $50.0 million); (B) for purposes of Section 4.06 only, a disposition that constitutes a Restricted Payment permitted by Section 4.04 or a Permitted Investment; (C) sales or other dispositions of obsolete, worn-out or otherwise unsuitable assets or excess equipment in the ordinary course of business; and (D) a disposition of assets with a fair market value of less than $1,000,000).

Notwithstanding anything to the contrary set forth above, (x) unless, at the time of such disposition, the Company has Investment Grade Status, a disposition of Receivables and Related Assets shall be deemed to constitute an Asset Disposition and (y) a disposition of all or substantially all the assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of Sections 4.09 and/or 5.01 and not by the provisions of Section 4.06.

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Securities, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by (2) the sum of all such payments.

"Bank Indebtedness" means all Obligations pursuant to the Credit Agreement.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day other than a Saturday, Sunday or a day on which commercial banking institutions are authorized or required by law to close in New York City.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Change of Control" means the occurrence of any of the following events:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a majority of the total voting power of the Voting Stock of the Company (for the purposes of this clause (1), such other person shall be deemed to beneficially own any Voting Stock of a Person (the "specified person") held by an other Person (the "parent entity"), if such other person is the beneficial owner (as defined in this clause (1)), directly or indirectly, of a majority of the voting power of the Voting Stock of such parent entity);

(2) individuals who on the Issue Date constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of 66-2/3% of the directors of the Company then still in office who were either directors on the Issue Date or whose election or nomination for election was previously so approved)





cease for any reason to constitute a majority of the Board of Directors then in office; or

(3) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person, other than a transaction following which in the case of a merger or consolidation transaction, securities that represented 100% of the Voting Stock of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) constitute at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commodity Agreement" means, in respect of a Person, any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in commodity prices.

"Company" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the TIA, each other obligor on the Securities.

"Consent Decree" means the consent decree entered on July 28, 2000 in the U.S. District Court for the District of Columbia in the matter of United States of America v. Flowserve Corporation, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company relating to the purchase of Ingersoll-Dresser Pump Company by the Company.

"Consent Decree Assets" means the assets identified in the Consent Decree that the Company, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company have been ordered and directed to divest in connection with the Acquisition.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of

(x) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters for





which internal financial statements are available ending on or prior to the date of such determination to

(y) Consolidated Interest Expense for such four fiscal quarters;

provided, however, that:

(1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with

respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer (and shall include any applicable Pro Forma Cost Savings). If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest of such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire





period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months).

"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus, to the extent not included in such total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, without duplication:

(1) interest expense attributable to capital leases and the interest expense attributable to leases constituting part of a Sale/Leaseback Transaction;

(2) amortization of debt discount and debt issuance cost;

(3) capitalized interest;

(4) non-cash interest expenses;

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(6) net payments pursuant to Hedging Obligations;

(7) Preferred Stock dividends in respect of all Preferred

Stock held by Persons other than the Company or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the issuer of such Preferred Stock);

(8) interest incurred in connection with Investments in discontinued operations;

(9) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by (or secured by the assets of) the Company or any Restricted Subsidiary and there shall have occurred and continues an event of default under such Indebtedness or any payment is actually made in respect of such Guarantee;

(10) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust; and





(11) any premiums, fees, discounts, expenses and losses on the sale of Receivables and Related Assets (and any amortization thereof) payable in connection with a Receivables Program, as determined on a consolidated basis in conformity with GAAP.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

(2) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income of any Restricted Subsidiary that is not a Subsidiary Guarantor if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually





distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend

or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain (but not loss) realized upon the sale or other disposition of any assets (other than any Consent Decree Assets) of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) extraordinary gains or losses; and

(6) the cumulative effect of a change in accounting principles.

Notwithstanding the foregoing, for the purposes of Section 4.04 only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of the Investments or return of capital to the Company or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under Section 4.04 (a)(3)(C).

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company ending at least 45 days prior to the taking of any action for the purpose of which the determination is being made, as the sum of:

(1) the par or stated value of all outstanding Capital Stock of the Company plus

(2) paid-in capital or capital surplus relating to such Capital Stock plus



(3) any retained earnings or earned surplus

less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock. In determining "Consolidated Net Worth," the Company shall exclude the impact of any write-off of deferred financing fees occurring in connection with any transaction subject to Section 5.01 of this Indenture for the purpose of which the determination is being made.

"Corporate Trust Office" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the dated hereof is located at 101 Barclay Street, Floor 21 West, New York, New York 10286. Attention: Corporate Trust Administration, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Holders and the Company).

"Credit Agreement" means the Credit Agreement to be entered into by and among the Company, certain of its Subsidiaries, the lenders referred to therein, Credit Suisse First Boston, New York branch, as Syndication Agent, Bank of America, N.A., as Administrative Agent, Collateral Agent and Swingline Lender, and ABN-AMRO Bank N.V., Bank One and Salomon Smith Barney, Inc., as Co-Documentation Agents, together with the related documents thereto (including the term loans and revolving loans thereunder, any guarantees and security documents), as amended, extended, renewed, restated, refinanced, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to Refinance,

in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under such Credit Agreement or a successor Credit Agreement, whether by the same or any other lender or group of lenders.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement designed to protect such Person against fluctuations in currency values.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.





"Designated Senior Indebtedness" with respect to a Person means (1) the Bank Indebtedness; and (2) any other Senior Indebtedness of such Person which, at the date of determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least $25.0 million and is specifically designated by such Person in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of this Indenture.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Securities; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Securities shall not constitute Disqualified Stock if (1) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the Securities in Sections 4.06 and 4.09; and (2) any such requirement only becomes operative after compliance with such terms applicable to the Securities, including the purchase of any Securities tendered pursuant thereto.

"EBITDA" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) all income tax expense of the Company and its consolidated Restricted Subsidiaries;





(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Company and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid operating activity item that was paid in cash in a prior period);

(4) all other non-cash charges of the Company and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for

cash expenditures in any future period); and

(5) cash integration and restructuring charges in connection with the Acquisition and taken with respect to periods ended on or prior to December 31, 2001, in an aggregate amount not to exceed $65.0 million;

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

"Eligible Indebtedness" means any indebtedness other than:

(1) Indebtedness in the form of, or represented by, bonds or other securities or any guarantee thereof (other than a guarantee of Indebtedness of the Company in the form of, or represented by, bonds or other securities); and

(2) Indebtedness that is, or may be, quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the Securities Act).



"Euro Equivalent" means with respect to any monetary amount in a currency other than Euros, at any time of determination thereof, the amount of Euros obtained by converting such foreign currency involved in such computation into Euros at the spot rate for the purchase of Euros with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

"Euro Notes" means the 12-1/4% Senior Subordinated Notes due 2010 (other than any additional Euro Notes issued thereunder) as defined in the Euro Notes Indenture.

"Euro Notes Indenture" means the Indenture dated August 8, 2000 among Flowserve Finance B.V., The Bank of New York, Flowserve Corporation and the guarantors named therein.

"Euro Notes Holder" means the person in whose name a Euro Note is registered on the Registrar's (as defined in the Euro Notes Indenture) books.

"European Government Obligations" means direct non-callable obligations of, or non-callable obligations permitted by, any member nation of the European Union, the payment or guarantee of which is secured by the full faith and credit of the respective nation, provided that such nation has a credit rating at least equal to that of the highest rated member nation of the European Economic Area.

"Excess Cash Flow", with respect to the Company, has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Securities" means the debt securities of the Company issued pursuant to this Indenture in exchange for, and in an aggregate principal amount equal to, the Initial Securities, in compliance with the terms of the Registration Rights Agreement.

"Facilities" means the Term Loan Facilities and the Revolving Credit Facilities.

"FFBV" means Flowserve Finance B.V., a Netherlands besloten vennootschap, and indirect wholly owned subsidiary of the Company.



"Foreign Restricted Subsidiary" means a Restricted Subsidiary that is incorporated in a jurisdiction other than the United States or a State thereof or the District of Columbia and with respect to which more than 80% of any of its sales, earnings or assets (determined on a consolidated basis in accordance with GAAP) are located in, generated from or derived from operations located in territories outside of the United States of America and jurisdictions outside the United States of America.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants;

(2) statements and pronouncements of the Financial Accounting Standards Board;

(3) such other statements by such other entity as approved by a significant segment of the accounting profession; and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

All ratios and computations based on GAAP contained in this Indenture shall be computed in conformity with GAAP.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of



the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Guaranty Agreement" means a supplemental indenture, in a form satisfactory to the Trustee, pursuant to which a Subsidiary Guarantor guarantees the Company's obligations with respect to the Securities on the terms provided

for in this Indenture.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holder" or "Securityholder" means the Person in whose name a Security is registered on the Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall not be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, all



conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance, bank guaranty or similar credit transaction (other than obligations with respect thereto securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such Person to the extent such letters of credit, banker's acceptances, bank guaranties or similar credit transactions are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following payment thereon);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with this Indenture (but excluding, in each case, any accrued dividends);

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets and the amount of the obligation so secured; and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.





"Indenture" means this Indenture as amended or supplemented from time to time.

"Interest Rate Agreement" means in respect of a Person any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect such Person against fluctuations in interest rates.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary", the definition of "Restricted Payment" and Section 4.04:

(1) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (A) the Company's "Investment" in such Subsidiary at the time of such redesignation less (B) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Investment Grade Status" means that the credit rating of the Company's senior unsecured, non-credit-enhanced long-term debt is (a) "BBB-" or higher according to Standard & Poor's Rating Group or (b) "Baa3" or higher according to Moody's Investors Service, Inc.

"Issue Date" means August 8, 2000.





"Lenders" has the meaning specified in the Credit Agreement.

"Leverage Ratio" has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of

deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock, means the cash proceeds of such



issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Obligations" means with respect to any Indebtedness all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, and other amounts payable pursuant to the documentation governing such Indebtedness.

"Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Employee Stock Purchase Loans" means loans, in an aggregate amount outstanding at any time not to exceed $30.0 million, made by third parties (other than any Affiliate of the Company) to employees of the Company and its Subsidiaries who are participants in the Company's stock purchase program to enable such employees to purchase common stock of the Company.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in:

(1) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is a Related Business;

(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or

conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(3) cash and Temporary Cash Investments;





(4) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time;

(7) guaranties of Permitted Employee Stock Purchase Loans;

(8) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to the covenant described under Section 4.06;

(10) so long as no Default shall have occurred and be continuing (or result therefrom), in Unrestricted Subsidiaries in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (10) which at such time have not been repaid, does not exceed $25.0 million;

(11) so long as no Default shall have occurred and be continuing (or result therefrom), in any Person in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (11) which at such time have not been repaid, does not exceed $25.0 million; and

(12) a trust, limited liability company, special purpose entity or other similar entity in connection with a Receivables Program; provided, however, that (A)





such Investment is made by a Receivables Subsidiary and (B) the only assets transferred to such trust, limited liability company, special purpose entity or other similar entity consist of Receivables and Related Assets of such Receivables Subsidiary.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or

dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"principal" of a Security means the principal of the Security plus the premium, if any, payable on the Security which is due or overdue or is to become due at the relevant time.

"Pro Forma Cost Savings" means, with respect to any period, the reduction in costs that were (1) directly attributable to an asset acquisition and calculated on a basis that is consistent with Regulation S-X under the Securities Act in effect and applied as of the Issue Date; or (2) implemented by the business that was the subject of any such asset acquisition within 6 months of the date of such asset acquisition and that are supportable and quantifiable by the underlying accounting records of such business, in the case of each of (1) and (2), as if such reduction in costs had been effected as of the beginning of such period.

"Public Equity Offering" means an underwritten primary public offering of common stock of the Company pursuant to an effective registration statement under the Securities Act.

"Receivables and Related Assets" means accounts receivable, instruments, chattel paper, obligations, general intangibles and other similar assets, including interest in merchandise or goods, the sale or lease of which give rise to the foregoing, related contractual rights, guarantees, insurance proceeds, collections, other related assets and proceeds of all the foregoing.



"Receivables Program" means with respect to any Person, any accounts receivable securitization program pursuant to which such Person pledges, sells or otherwise transfers or encumbers its accounts receivable, including a trust, limited liability company, special purpose entity or other similar entity.

"Receivables Subsidiary" means a Wholly Owned Subsidiary (i) created for the purpose of financing receivables created in the ordinary course of business of the Company and its Subsidiaries and (ii) the sole assets of which consist of Receivables and Related Assets of the Company and its Subsidiaries and related Permitted Investments.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company, FFBV or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with this Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced; and

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced;

provided further, however, that Refinancing Indebtedness shall not include (A) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or (B) Indebtedness

of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Registration Rights Agreement" means the Registration Rights Agreement dated August 3, 2000 among the Company, the Guarantors, Credit Suisse First Boston Corporation, Banc of America Securities LLC, ABN AMRO Incorporated and Banc One Capital Markets, Inc.

"Related Business" means any business in which the Company was engaged on the Issue Date and any business related, ancillary or complementary to any business of the Company in which the Company was engaged on the Issue Date or any industrial manufacturing or related services business.

"Representative" means with respect to a Person any trustee, agent or representative (if any) for an issue of Senior Indebtedness of such Person.

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and dividends or distributions payable solely to the Company or a Restricted Subsidiary, and other than pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment



or scheduled sinking fund payment of any Subordinated Obligations of such Person (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

In determining the amount of any Restricted Payment made in property other than cash, such amount shall be the fair market value of such property at the time of such Restricted Payment, as determined in good faith by the Board of Directors.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Revolving Credit Facility" means the revolving credit facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances, in whole or in part, any such revolving credit facility.

"Sale/Leaseback Transaction" means an arrangement relating to property owned by the Company or a Restricted Subsidiary on the Issue Date or thereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means with respect to any Person any Indebtedness of such Person secured by a Lien.

"Senior Indebtedness" means with respect to any Person:

(1) Bank Indebtedness of or guaranteed by such Person, whether outstanding on the Issue Date or thereafter Incurred;

(2) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and



(3) accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to such Person whether or not a claim for post-filing interest is allowed or allowable in such proceeding) in respect of (A) such Bank Indebtedness; (B) indebtedness of such Person for money borrowed and (C) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable

unless, in the case of clauses (1) and (2), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are subordinate in right of payment to the Securities; provided, however, that Senior Indebtedness shall not include:

(1) any obligation of such Person to any Subsidiary;

(2) any liability for Federal, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);

(4) any Indebtedness of such Person (and any accrued and unpaid interest in respect thereof) which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or

(5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of the Indenture.

"Senior Subordinated Indebtedness" means, with respect to a Person, the Securities (in the case of the Company), a Subsidiary Guaranty (in the case of a Subsidiary Guarantor) and any other Indebtedness of such Person that specifically provides that such Indebtedness is to rank pari passu with the Securities or such Subsidiary Guaranty, as the case may be, in right of payment and is not subordinated by its terms in right of payment to any Indebtedness or other obligation of such Person which is not Senior Indebtedness of such Person.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Securities, the Euro Notes, the Company's Guaranty of the Euro Notes or a Subsidiary Guaranty of such Person, as the case may be, pursuant to a written agreement to that effect.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by: (1) such Person; (2) such Person and one or more Subsidiaries of such Person; or (3) one or more Subsidiaries of such Person.

"Subsidiary Guarantor" means FFBV, Flowserve International Limited, each direct or indirect Subsidiary of the Company that is a guarantor of Senior Indebtedness under the Credit Agreement and each direct or indirect domestic Restricted Subsidiary that is a guarantor of any other Indebtedness of the Company.

"Subsidiary Guaranty" means a Guarantee by a Subsidiary Guarantor of the Company's obligations with respect to the Securities.

"Temporary Cash Investments" means any of the following:

(1) any investment in direct obligations of the United States of America, European Government Obligations or direct obligations of any other European Union member state in which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof or obligations guaranteed by the United States of America or any other European Union member state in



which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $50,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker-dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;

(4) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's Investors Service, Inc. or "A-2" (or higher) according to Standard and Poor's Ratings Group; and

(5) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by Standard & Poor's Ratings Group or "A" by Moody's Investors Service, Inc.

"Term Loan Facility" means the term loan facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances in whole or in part any such term loan facility.





"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of this Indenture.

"Trustee" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor.

"Trust Officer" means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either (A) the Subsidiary to be so designated has total assets of $1,000 or less or (B) if such Subsidiary has assets greater than $1,000, such designation would be permitted under Section 4.04.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (A) the Company could Incur $1.00 of additional Indebtedness under Section 4.03(a) and (B) no Default shall have occurred and be continuing. Any such





designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Dollar Equivalent" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase

of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

Except as described under Section 4.03, whenever it is necessary to determine whether the Company has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially incurred in such currency.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or one or more Wholly Owned Subsidiaries.



SECTION 1.02. Other Definitions.

| Term | Defined in Section |
|---|---|
| "Affiliate Transaction" | 4.07 |
| "Appendix" | 2.01 |
| "Bankruptcy Law" | 6.01 |
| "Blockage Notice" | 10.03 |
| "Change of Control Offer" | 4.09(b) |
| "covenant defeasance option" | 8.01(b) |
| "Custodian" | 6.01 |
| "Event of Default" | 6.01 |
| "Excess Cash Flow Offer" | 4.10 |
| "Excess Cash Flow Offer Amount" | 4.10 |
| "Excess Cash Flow Offer Period" | 4.10 |
| "Excess Cash Flow Purchase Date" | 4.10 |
| "Foreign Jurisdiction Merger | 5.01 |
| "legal defeasance option" | 8.01(b) |
| "Legal Holiday" | 13.08 |
| "Obligations" | 11.01 |
| "Offer" | 4.06(b) |
| "Offer Amount" | 4.06(c)(2) |
| "Offer Period" | 4.06(c)(2) |
| "pay its Subsidiary Guaranty" | 12.03 |
| "pay the Securities" | 10.03 |
| "Paying Agent" | 2.03 |
| "Payment Blockage Period" | 10.03 |
| "Payment Default | 10.03 |
| "Purchase Date" | 4.06(c)(1) |
| "Registrar" | 2.03 |
| "Successor Company" | 5.01 |

SECTION 1.03. Incorporation by Reference of Trust Indenture Act. This Indenture is subject to the mandatory provisions of the TIA which are incorporated by reference in and made a part of this Indenture. The following TIA terms have the following meanings:

"Commission" means the SEC;

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture;





"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the indenture securities means the Company and any other obligor on the indenture securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) "including" means including without limitation;

(5) words in the singular include the plural and words in the plural include the singular;

(6) unsecured Indebtedness shall not be deemed to be subordinate or junior to Secured Indebtedness merely by virtue of its nature as unsecured Indebtedness;

(7) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with GAAP;

(8) the principal amount of any Preferred Stock shall be (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock, whichever is greater; and

(9) all references to the date the Securities were originally issued shall refer to the Issue Date.

SECTION 1.05. Acts of Holders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such





Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The ownership of Securities shall be proved by the Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided, however, that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.



ARTICLE 2

The Securities

SECTION 2.01. Form and Dating. Provisions relating to the Initial Securities, the Private Exchange Securities and the Exchange Securities are set forth in the Rule 144A/Regulation S Appendix attached hereto (the "Appendix") which is hereby incorporated in and expressly made part of this Indenture. The Initial Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit 1 to the Appendix which is hereby incorporated in and expressly made a part of this Indenture. The Exchange Securities, the Private Exchange Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Security shall be dated the date of its authentication. The terms of the Securities set forth in the Appendix and Exhibit A are part of the terms of this Indenture.

SECTION 2.02. Execution and Authentication. Two Officers shall sign the Securities for the Company by manual or facsimile signature. The Company's seal may be impressed, affixed, imprinted or reproduced on the Securities and may be in facsimile form.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate the Securities. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the

same rights as any Registrar, Paying Agent or agent for service of notices and demands.

SECTION 2.03. Registrar and Paying Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Securities may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Company or any Wholly Owned Subsidiary incorporated or organized within The United States of America may act as Paying Agent, Registrar, co-registrar or transfer agent.

The Company initially appoints the Trustee as Registrar and Paying Agent in connection with the Securities.

SECTION 2.04. Paying Agent To Hold Money in Trust. On each due date of the principal and interest on any Security, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Trustee of any default by the Company in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section 2.04 the Paying Agent shall have no further liability for the money delivered to the Trustee.



SECTION 2.05. Securityholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.06. Transfer and Exchange. The Securities shall be issued in registered form and shall be transferable only upon the surrender of a Security for registration of transfer. When a Security is presented to the Registrar or a co-registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of this Indenture and Section 8-401(a) of the Uniform Commercial Code are met. When Securities are presented to the Registrar or a co-registrar with a request to exchange them for an equal principal amount of Securities of other denominations, the Registrar shall make the exchange as requested if the same requirements are met.

Notwithstanding the foregoing, the Company is not required to register the transfer of any certificated Notes:

(1) for a period of 15 calendar days prior to any date fixed for the redemption of the Securities;

(2) for a period of 15 calendar days immediately prior to the date fixed for selection of Securities to be redeemed in part;

(3) for a period of 15 calendar days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with an offer made pursuant to Section 4.06 or 4.09.

Any such transfer will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

SECTION 2.07. Replacement Securities. If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and



the Trustee shall authenticate a replacement Security if the requirements of Section 8-405 of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss which any of them may suffer if a Security is replaced. The Company and the Trustee may charge the Holder for their expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company.

SECTION 2.08. Outstanding Securities. Securities outstanding at any time are all Securities authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.08 as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Security is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Securities (or portions thereof) to be redeemed or maturing, as the case may be, and the Paying Agent is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture, then on and after that date such Securities (or portions thereof) cease to be outstanding and interest on them ceases to accrue; provided, however, that in determining whether the holders of the requisite principal amount of outstanding Securities are present at a meeting of holders of Securities for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment or modification hereunder, Securities held for the account of the Company, any of its subsidiaries or any of its affiliates shall be disregarded and deemed not to be outstanding, except that in determining whether the Trustee shall be protected in making such a determination or relying upon any such quorum, consent or vote, only Securities which a Trust Officer actually knows to be so owned shall be so disregarded.



SECTION 2.09. Temporary Securities. Until definitive Securities are ready for delivery, the Company may prepare and the Trustee shall

authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Securities and deliver them in exchange for temporary Securities.

SECTION 2.10. Cancellation. The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and dispose of (subject to the record retention requirements of the Exchange Act) all Securities surrendered for registration of transfer, exchange, payment or cancellation in accordance with the Trustee's customary practices to the Company unless the Company directs the Trustee to deliver canceled Securities to the Company. The Company may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Trustee for cancellation.

SECTION 2.11. Defaulted Interest. If the Company defaults in a payment of interest on the Securities, the Company shall pay defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Company may pay the defaulted interest to the persons who are Securityholders on a subsequent special record date. The Company shall fix or cause to be fixed any such special record date and payment date to the reasonable satisfaction of the Trustee and shall promptly mail to each Securityholder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

SECTION 2.12. CUSIP Numbers. The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use) and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.



SECTION 2.13. Issuance of Additional Securities. The Company shall be entitled, subject to its compliance with Section 4.03, to issue Additional Securities under this Indenture which shall have identical terms as the Initial Securities issued on the Issue Date, other than with respect to the date of issuance and issue price. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Securities, the Company shall set forth in a resolution of the Board of Directors and an Officers' Certificate, a copy of each which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of such Additional Securities to be authenticated and delivered pursuant to this Indenture;

(2) the issue price, the issue date and the CUSIP number of such Additional Securities; provided, however, that no Additional Securities may be issued at a price that would cause such Additional Securities to have "original issue discount" within the meaning of Section 1273 of the Code; and

(3) whether such Additional Securities shall be Transfer Restricted Securities and issued in the form of Initial Securities as set forth in the Appendix to this Indenture or shall be issued in the form of Exchange Securities as set forth in Exhibit A.

## ARTICLE 3

## Redemption

SECTION 3.01. Notices to Trustee. If the Company elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the redemption date, the principal amount of Securities to be redeemed and the paragraph of the Securities pursuant to which the redemption will occur.

The Company shall give each notice to the Trustee provided for in this Section 3.01 at least 60 days before the redemption date unless the Trustee consents to a shorter period. Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Company to the effect that such redemption will comply with the conditions herein.



SECTION 3.02. Selection of Securities To Be Redeemed. If fewer than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by a method that complies with applicable legal and securities exchange requirements, if any, and that the Trustee in its sole discretion shall deem to be fair and appropriate and in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. The Trustee shall make the selection from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than $1,000. Securities and portions of them the Trustee selects shall be in principal amounts of $1,000 or a whole multiple of $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

SECTION 3.03. Notice of Redemption. At least 30 days but not more than 60 days before a date for redemption of Securities, the Company shall mail a notice of redemption by first-class mail to each Holder of Securities to be redeemed at such Holder's registered address.

The notice shall identify the Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price;

(3) the name and address of the Paying Agent;

(4) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(5) if fewer than all the outstanding Securities are to be redeemed, the identification and principal amounts of the particular Securities to be redeemed;

(6) that, unless the Company defaults in making such redemption payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on Securities (or portion



thereof) called for redemption ceases to accrue on and after the redemption date;

(7) The CUSIP numbers; and

(8) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Securities.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. In such event, the Company shall provide the Trustee with the information required by this Section 3.03.

SECTION 3.04. Effect of Notice of Redemption. Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date and at the redemption price stated in the notice. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price stated in the notice, plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the related interest payment date). Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

SECTION 3.05. Deposit of Redemption Price. Prior to the redemption date, the Company shall deposit with the Paying Agent (or, if the Company or a Subsidiary is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which have been delivered by the Company to the Trustee for Cancellation.

SECTION 3.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate for the Holder (at the Company's expense) a new Security equal in principal amount to the unredeemed portion of the Security surrendered.



ARTICLE 4

Covenants

SECTION 4.01. Payment of Securities. The Company shall promptly pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 4.02. SEC Reports. Notwithstanding that the Company may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall file with the SEC and provide the Trustee and Securityholders with such annual reports and such information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such information, documents and other reports to be so filed and provided at the times specified for the filing of such information, documents and reports under such Sections. In addition, the Company shall furnish to the Holder of the Securities and to prospective investors, upon the requests of such Holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as any Securities are not freely transferable under the Securities Act. The Company also shall comply with the other provisions of TIA Section 314(a).

SECTION 4.03. Limitation on Indebtedness. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Company shall be entitled to Incur Indebtedness, and its Restricted Subsidiaries shall be entitled to Incur Eligible Indebtedness, in each case if, on the date of such Incurrence and after giving effect thereto no Default has occurred and is continuing and, the Consolidated Coverage Ratio exceeds 2.0 to 1 if such Indebtedness is Incurred

prior to September 1, 2003 or 2.25 to 1 if such Indebtedness is Incurred thereafter.

(b) Notwithstanding Section 4.03(a), the Company and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by the Company pursuant to any Revolving Credit Facility; provided, however, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed the greater of (A) $300.0 million and (B) the sum of (x) 50% of the book value of the inventory of the Company and its Restricted Subsidiaries and (y) 50% of the book value of the accounts receivable of the Company and its Restricted Subsidiaries (other than any accounts receivable constituting Receivables and Related Assets pledged, sold or otherwise transferred or encumbered in connection with a Receivables Program), less the sum of all principal payments made with respect to such Indebtedness pursuant to Section 4.06(a)(3)(A);

(2) Indebtedness Incurred by the Company pursuant to any Term Loan Facility; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (2) and then outstanding does not exceed $750.0 million less the aggregate sum of all principal payments actually made from time to time after the Issue Date with respect to such Indebtedness (other than principal payments made from any permitted Refinancings thereof);

(3) Indebtedness Incurred by a Receivables Subsidiary pursuant to a Receivables Program; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (3) and then outstanding does not exceed $400.0 million;

(4) Indebtedness owed to and held by the Company or a Wholly Owned Subsidiary; provided, however, that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Wholly Owned Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the



Company or FFBV is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Securities and the Euro Notes, respectively;

(5) the Securities and the Euro Notes (other than any Additional Securities and Additional Euro Notes);

(6) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2), (3), (4) or (5) of this Section 4.03(b));

(7) Indebtedness of a Person Incurred and outstanding on or prior to the date on which such Person becomes a Restricted Subsidiary (including upon merger or consolidation with the Company or any Restricted Subsidiary) or assumed in connection with the purchase of assets from another Person (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or such Person or such assets were acquired by the Company);

provided, however, that (A) with respect to any such Indebtedness Incurred prior to the first anniversary of the Issue Date, such Indebtedness is in an aggregate principal amount which, when taken together with all other Indebtedness Incurred pursuant to this clause (7), does not exceed $50.0 million or (B) on the date of such acquisition and after giving pro forma effect thereto, the Company would have been able to Incur at least $1.00 of additional Indebtedness pursuant to Section 4.03(a);

(8) Indebtedness of the Company or any of its Restricted Subsidiaries attributable to Capital Lease Obligations, or Incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including any Indebtedness assumed in connection with the acquisition of any such assets, in an aggregate principal amount which, when taken together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (8) and then outstanding, does not exceed $25.0 million (including any Refinancing Indebtedness with respect thereto);

(9) Indebtedness under industrial revenue bonds in an aggregate principal amount which, when taken





together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (9) and then outstanding, does not exceed $20.0 million;

(10) Indebtedness Incurred by Foreign Restricted Subsidiaries in an aggregate principal amount which, when taken together with all other Indebtedness of Foreign Restricted Subsidiaries Incurred pursuant to this clause (10) and then outstanding, does not exceed $25.0 million;

(11) Indebtedness of the Company, whether secured or unsecured, consisting of Guarantees of Permitted Employee Stock Purchase Loans;

(12) Indebtedness or other obligations solely in respect of worker's compensation claims, self-insurance obligations and surety, appeal and performance bonds entered into in the ordinary course of business of the Company and its Restricted Subsidiaries;

(13) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to Section 4.03(a) or pursuant to clause (5), (6) or (7) of this Section 4.03(b) or this clause (13); provided, however, that to the extent such Refinancing Indebtedness directly or indirectly Refinances Indebtedness of a Subsidiary Incurred pursuant to clause (7), such Refinancing Indebtedness shall be Incurred only by such Subsidiary;

(14) Hedging Obligations under or with respect to Interest Rate Agreements, Currency Agreements or Commodity Agreements entered into in the ordinary course of business and not for the purpose of speculation;

(15) Indebtedness consisting of the Subsidiary Guaranty of a Subsidiary Guarantor;

(16) Indebtedness of the Company or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, provided that the Indebtedness is satisfied within five business days of Incurrence;

(17) Indebtedness of the Company or any Restricted Subsidiary consisting of indemnification, adjustment of purchase price or similar obligations, in each case incurred in connection with the disposition of any assets of the Company or any Restricted Subsidiary;

(18) Indebtedness consisting of the Guarantee by (i) the Company of any Indebtedness of a Restricted Subsidiary that was permitted to be Incurred by another provision of this Section 4.03 and (ii) any Restricted Subsidiary of the Company of Indebtedness of the Company that was permitted to be Incurred by another provision of this Section 4.03; and

(19) Indebtedness of the Company in an aggregate principal amount which, when taken together with all other Indebtedness of the Company outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (18) of this Section 4.03(b) or Section 4.03(a) does not exceed $25.0 million.

(c) Notwithstanding the foregoing, neither the Company nor any Subsidiary Guarantor will Incur any Indebtedness pursuant to Section 4.03(b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Company or any Subsidiary Guarantor unless such Indebtedness shall be subordinated to the Securities or the applicable Subsidiary Guaranty to at least the same extent as such Subordinated Obligations.

(d) For purposes of determining compliance with this Section 4.03, (1) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Company, in its sole discretion, will classify such item of Indebtedness at the time of Incurrence and only be required to include the amount and type of such Indebtedness in one of the above clauses and (2) the Company will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above.

(e) Notwithstanding Section 4.03(a) or 4.03(b), neither the Company nor any Subsidiary Guarantor will Incur (1) any Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness of such Person, unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness of such Person or (2) any Secured Indebtedness that is not Senior Indebtedness of such Person unless contemporaneously



therewith such Person makes effective provision to secure the Securities equally and ratably with such Secured Indebtedness for so long as such Secured Indebtedness is secured by a Lien.

(f) For purposes of determining compliance with any U.S. dollar or Euro denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar or Euro Equivalent, as the case may be, determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars or Euros, as the case may be, covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars or Euros will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the Euro Equivalent or U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (i) such U.S. Dollar Equivalent or Euro Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (ii) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent or Euro Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred.

SECTION 4.04. Limitation on Restricted Payments. (a) The Company shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Company is not entitled to Incur an additional $1.00 of Indebtedness under Section 4.03(a); or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (without duplication):



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(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which internal financial statements are available on or prior to the date of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus

(B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of, or cash capital contribution in respect of, its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) and 100% of the fair market value (as determined in good faith by resolution of the Board of Directors) of property (other than cash) that would constitute Temporary Cash Investments or used in a Related Business and received by the Company or a Restricted Subsidiary subsequent to the Issue Date in exchange for or as a contribution in respect of its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than (i) an issuance to or a capital contribution by a Subsidiary of the Company or (ii) an issuance to or a capital contribution by an employee stock ownership plan or to a trust established by the Company or any of its subsidiaries for the benefit of their employees or (iii) property that was financed with loans from the Company or any Restricted Subsidiary); plus

(C) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investments, and proceeds representing the return of capital (to the extent not included in Consolidated Net Income), in each case received by the Company or any Restricted Subsidiary, and (y) to the extent such Person is an Unrestricted Subsidiary, the portion (proportionate to the Company's equity interest in



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such Subsidiary) of the fair market value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that the foregoing sum shall not exceed, in the case

of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person or Unrestricted Subsidiary.

(b) The provisions of Section 4.04(a) shall not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company in respect of its Capital Stock (other than Disqualified Stock); provided, however, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under Section 4.04(a)(3)(B) and under clause (4) below;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness which is permitted to be Incurred pursuant to Section 4.03; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Section 4.04; provided, however, that at the time of payment of such dividend, no other Default shall have occurred and be continuing (or result therefrom);



provided further, however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(4) so long as no Default has occurred and is continuing, the repurchase or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries (A) from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), (B) in the open market to the extent such shares are acquired to satisfy a current obligation to deliver shares in connection with the exercise of stock options or similar rights, in each case pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such repurchases and other acquisitions shall not exceed in any calendar year the sum of (x) $5.0 million plus (y) the Net Cash Proceeds from the sale of Capital Stock to employees or directors of the Company (including pursuant to the exercise of stock options) that occur during such calendar year (to the extent such Net Cash Proceeds are not applied to the payment of a Restricted Payment pursuant to clause (1) above); provided further, however, that (i) such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments and (ii) the Net Cash Proceeds from such sales described in clause (y) shall be excluded from the calculation of amounts under Section 4.04(a)(3)(B); or

(5) Restricted Payments not exceeding $15.0 million in the aggregate; provided, however, that (A) at the time of such Restricted Payments, no Default shall have occurred and be continuing (or result

therefrom) and (B) such Restricted Payments shall be included in the calculation of Restricted Payments.

SECTION 4.05. Limitation on Restrictions on Distributions from Restricted Subsidiaries. The Company shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness





owed to the Company, (b) make any loans or advances to the Company or (c) transfer any of its property or assets to the Company, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date, including this Indenture, the Euro Notes Indenture and the Credit Agreement as in effect on the Issue Date;

(2) any encumbrance or restriction with respect to a Receivables Subsidiary pursuant to a Receivables Program of such Receivables Subsidiary;

(3) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(4) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in Section 4.05 (1), (2), (3) or this clause (4) or contained in any amendment to an agreement referred to in Section 4.05 (1), (2), (3) or this clause (4); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment are, in the good faith judgment of the Board of Directors, no less favorable, taken as a whole, to the Securityholders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in such predecessor agreements;

(5) any such encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder;

(6) in the case of clause (c) above, restrictions contained in security agreements or mortgages securing Indebtedness, or under letters of credit or bank





guarantees, of a Restricted Subsidiary to the extent such restrictions restrict the transfer of, or the grant of security over, the property subject to such security agreements, mortgages, letters of credit or bank guarantees;

(7) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or

disposition;

(8) purchase money obligations (including Capital Lease Obligations) for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (c) above;

(9) provisions with respect to the disposition or distribution of assets or property in joint venture agreements and other similar agreements in the ordinary course of business; and

(10) any such encumbrance or restriction with respect to a Foreign Restricted Subsidiary pursuant to an agreement governing Indebtedness Incurred by such Foreign Restricted Subsidiary.

SECTION 4.06. Limitation on Sales of Assets and Subsidiary Stock. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless: (1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of all non-cash consideration), as determined in good faith by the Board of Directors, of the shares and assets subject to such Asset Disposition; (2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be) (A) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Company or Indebtedness (other than any Disqualified Stock) of a Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net



Available Cash; (B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), to the extent the Company elects, to acquire Additional Assets within one year (or enter into a binding commitment therefor within such period and acquire such Additional Assets within 18 months) from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and (C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an offer to the holders of the Securities and the Euro Notes (and to holders of other Senior Subordinated Indebtedness of the Company or FFBV designated by the Company) to purchase, on a pro rata basis, Securities and Euro Notes (and such other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to the conditions of Section 4.06(b); provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (A) or (C) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased. Notwithstanding the foregoing provisions of this Section 4.06, (i) the Company and the Restricted Subsidiaries shall not be required to apply any Net Available Cash in accordance with this Section 4.06 except to the extent that the aggregate Net Available Cash from all Asset Dispositions which are not applied in accordance with this Section 4.06 exceeds $10.0 million , and (ii) to the extent any Asset Disposition constitutes the disposition of Consent Decree Assets, the Company shall be required to apply the Net Available Cash from such Asset Disposition pursuant to Section 4.06 (a)(3)(A) and the Company shall not be required to comply with Section 4.06 (a)(1). Pending application of Net Available Cash pursuant to this Section 4.06, such Net Available Cash shall be invested in Temporary Cash Investments or applied to temporarily reduce revolving credit indebtedness.

For the purposes of this Section 4.06, the following are deemed to be cash or cash equivalents: (1) the assumption of Indebtedness of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and (2) securities received by the Company or any Restricted Subsidiary from the transferee that are promptly converted by the Company or such Restricted Subsidiary into cash.

In addition, the Company may elect to deem Additional Assets (determined based on the fair market value



of such assets) as cash and cash equivalents for purposes of this Section 4.06; provided, however, that such Additional Assets were acquired for fair market value as part of the transaction constituting an Asset Disposition; and provided further, however, that such Additional Assets will be deemed to have been acquired in accordance with Section 4.06(a)(3)(B).

(b) In the event of an Asset Disposition that requires the purchase of the Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to Section 4.06(a)(3)(C) above, the Company will purchase, on a pro rata basis, Securities and Euro Notes tendered pursuant to an offer (the "Offer") by the Company for the Securities (and such other Senior Subordinated Indebtedness of the Company and FFBV, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness of the Company and FFBV, as applicable, was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of such other Senior Subordinated Indebtedness of the Company or FFBV, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in Section 4.06(c). If the aggregate purchase price of the Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company or FFBV, as applicable) tendered exceeds the Net Available Cash allotted to their purchase, the Company will select the Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company or FFBV, as applicable) to be purchased on a pro rata basis but in round denominations, which in the case of the Securities will be denominations of $1,000 principal amount or multiples thereof and in the case of the Euro Notes will be (E)1,000 principal amount or multiples thereof. The Company shall not be required to make such an offer to purchase Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company and FFBV, as applicable) pursuant to this Section 4.06 if the Net Available Cash available therefor is less than $10.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c)(1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Offer, the Company shall deliver to the Trustee and send, by first-class mail to each Holder and Euro Notes Holder, a written



notice stating that the Holder and Euro Notes Holder may elect to have his Securities and Euro Notes purchased by the Company either in whole or in part (subject to prorating as described in Section 4.06(b) in the event the Offer is oversubscribed) in integral multiples of $1,000 of principal amount and E1,000 principal amount, respectively, at the applicable purchase price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date of such notice (the "Purchase Date") and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders and Euro Notes Holders to make an informed decision (which at a minimum will include (A) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report which may be incorporated by reference, other than Current Reports describing Asset Dispositions otherwise described in the offering materials (or corresponding successor reports), (B) a description of material developments in the Company's business subsequent to the date of the latest of such Reports, and (C) if material, appropriate pro forma financial information) and all instructions and materials necessary to tender Securities and the Euro Notes pursuant to the Offer, together with the information contained in clause (3).

(2) Not later than the date upon which written notice of an Offer is delivered to the Trustee as provided below, the Company shall deliver to the Trustee an Officers' Certificate as to (A) the amount of the Offer (the "Offer Amount"), including information as to any other Senior Subordinated Indebtedness of the Company or FFBV included in the Offer, (B) the allocation of the Net Available Cash from the Asset Dispositions pursuant to which such Offer is being made and (C) the compliance of such allocation with the provisions of Section 4.06(a) and (b). On such date, the Company shall also irrevocably deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust) in Temporary Cash Investments, maturing on the last day prior to the Purchase Date or on the Purchase Date if funds are immediately available by open of business, an amount equal to the Offer Amount to be held for payment in accordance with the provisions of this Section 4.06. If the Offer includes other Senior Subordinated Indebtedness, the deposit described in the preceding sentence may be made with any other paying agent pursuant to arrangements satisfactory to the Trustee. Upon the expiration of the period for which the Offer



remains open (the "Offer Period"), the Company shall deliver to the Trustee for cancellation the Securities or portions thereof which have been properly tendered to and are to be accepted by the Company. The Trustee shall, on the Purchase Date, mail or deliver payment (or cause the delivery of payment) to each tendering Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Securities and Euro Notes delivered by the Company to the Trustee is less than the Offer Amount applicable to the Securities and Euro Notes, the Trustee shall deliver the excess to the Company immediately after the expiration of the Offer Period for application by the Company in any manner permitted by this Indenture.

(3) Holders and Euro Notes Holders electing to have either a Security or a Euro Note purchased shall be required to surrender the Security or Euro Note, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Purchase Date. Holders and Euro Notes Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the Purchase Date, a telex, facsimile transmission or letter setting forth the name of the Holder or Euro Notes Holder, the principal amount of the Security on Euro Note which was delivered for purchase by the Holder or Euro Notes Holder and a statement that such Holder or Euro Notes Holder is withdrawing his election to have such Security or Euro Notes purchased. Holders or Euro Notes Holders whose Securities or Euro Notes are purchased only in part shall be issued new Securities or Euro Notes equal in principal amount to the unpurchased portion of the Securities or Euro Notes surrendered.

(4) At the time the Company delivers Securities or Euro Notes to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Securities or Euro Notes are to be accepted by the Company pursuant to and in accordance with the terms of this Section 4.06. A Security shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder or Euro Notes Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities or Euro Notes pursuant to this Section 4.06. To the extent that the provisions of any securities laws or regulations conflict



with provisions of this Section 4.06, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.06 by virtue of its compliance

with such securities laws or regulations.

SECTION 4.07. Limitation on Affiliate Transactions. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction") unless: (1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a Person who is not an Affiliate; (2) if such Affiliate Transaction involves an amount in excess of $10.0 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company disinterested with respect to such Affiliate Transactions have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Board of Directors; and (3) if such Affiliate Transaction involves an amount in excess of $20.0 million, the Board of Directors shall also have received a written opinion from (A) an investment banking firm of national prominence or (B) an accounting or appraisal firm nationally recognized in making such determinations, in each case that is not an Affiliate of the Company to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries.

(b) The provisions of Section 4.07(a) shall not prohibit: (1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to Section 4.04; (2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options, stock ownership plans or other similar incentive arrangements approved by the Board of Directors; (3) loans or advances to employees in the ordinary course of business in accordance with the past practices of the Company or its Restricted Subsidiaries, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time; (4) guarantees of Permitted Employee Stock Purchase Loans; (5) the payment of reasonable fees to directors of the Company and its



Restricted Subsidiaries who are not employees of the Company or its Restricted Subsidiaries; (6) any transaction with a Restricted Subsidiary or joint venture or similar entity which would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary, joint venture or similar entity; (7) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company; (8) any Receivables Program of the Company or a Restricted Subsidiary; (9) customary directors' and officers' indemnification arrangements; and (10) any agreement with the Company or any Restricted Subsidiary as in effect as of the Issue Date and any amendment or replacement thereto or any transaction contemplated thereby so long as such amendment or replacement agreement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement as in effect on the Issue Date.

SECTION 4.08. Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries. The Company (1) shall not, and shall not permit any Restricted Subsidiary to, sell, lease, transfer or otherwise dispose of (but excluding any pledge of such Capital Stock otherwise permitted by this Indenture) any Capital Stock of any Restricted Subsidiary to any Person (other than the Company or a Wholly Owned Subsidiary), and (2) shall not permit any Restricted Subsidiary to issue any of its Capital Stock (other than, if necessary, shares of its Capital Stock constituting directors' or other legally required qualifying shares) to any Person (other than to the Company or a Wholly Owned Subsidiary), unless (A) immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any of its Subsidiaries own any Capital Stock of such Restricted Subsidiary; (B) immediately after giving effect to such issuance, sale or other disposition, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto would have been permitted to be made under Section 4.04 if made on the date of such issuance, sale or other disposition; or (C) the Company concurrently acquires sufficient shares of Capital Stock of such Restricted Subsidiary to at least maintain the same percentage ownership interest it had prior to the transaction.

Notwithstanding the foregoing, the issuance or sale of shares of Capital Stock of any Restricted Subsidiary of the Company will not violate the provisions of the



immediately preceding sentence if such shares are issued or sold in connection with:

(i) the formation or capitalization of a Restricted Subsidiary, or

(ii) a single transaction or a series of substantially contemporaneous transactions whereby such Restricted Subsidiary becomes a Restricted Subsidiary of the Company by reason of the acquisition of securities or assets from another Person.

SECTION 4.09. Change of Control. (a) Upon the occurrence of a Change of Control, each Holder shall have the right to require that the Company purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date), in accordance with the terms contemplated in Section 4.09(b). In the event that at the time of such Change of Control the terms of the Senior Indebtedness of the Company restrict or prohibit the repurchase of Securities pursuant to this Section 4.09, then prior to the mailing of the notice to Holders provided for in Section 4.09(b) below but in any event within 30 days following any Change of Control, the Company shall (1) repay in full all such Senior Indebtedness or (ii) obtain the requisite consent under the agreements governing such Senior Indebtedness to permit the repurchase of the Securities as provided for in Section 4.09(b).

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder with a copy to the Trustee (the "Change of Control Offer") stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization, each after giving effect to such Change of Control);



(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions determined by the Company, consistent with this Section 4.09, that a Holder must follow in order to have its Securities purchased.

(c) Holders electing to have a Security purchased will be required to surrender the Security, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the purchase date. Holders will be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the purchase date, a facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Security which was delivered for purchase by the Holder and a statement that such Holder is withdrawing his

election to have such Security purchased.

(d) On the purchase date, all Securities purchased by the Company under this Section 4.09 shall be delivered by the Company to the Trustee for Cancellation, and the Company shall pay the purchase price plus accrued and unpaid interest, if any, to the Holders entitled thereto.

(e) Notwithstanding the foregoing provisions of this Section 4.09, the Company shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 4.09 applicable to a Change of Control Offer made by the Company and purchases all Securities validly tendered and not withdrawn under such Change of Control Offer.

(f) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities pursuant to this Section 4.09. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 4.09, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.09 by virtue of its compliance with such securities laws or regulations.



SECTION 4.10. Excess Cash Flow Repurchase Offer. (a) If the Company has Excess Cash Flow for any fiscal year (commencing with the fiscal year ending December 31, 2001), no later than the 120th day following the end of such fiscal year, the Company shall apply an amount equal to 50% of the Excess Cash Flow for such fiscal year: (1) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase (and permanently reduce the commitments thereunder) Senior Indebtedness of the Company with such percentage of Excess Cash Flow; (2) second, to the extent of the balance of such percentage of Excess Cash Flow after application in accordance with clause (1), to make an offer to the holders of the Securities and Euro Notes (and to holders of other Senior Subordinated Indebtedness of the Company or FFBV designated by the Company) to purchase, on a pro rata basis, Securities and Euro Notes (and such other Senior Subordinated Indebtedness of the Company or FFBV) pursuant to and subject to the conditions contained in this Section 4.10 and in Section 4.10 of the Euro Notes Indenture (an "Excess Cash Flow Offer"); and (3) third, to the extent of the balance of such percentage of Excess Cash Flow after application in accordance with clause (1) or (2) above, to any other application or use not prohibited by the Indenture; provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (1) above, the Company shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased; and provided, further, that no Excess Cash Flow Offer shall be required to be made if the Company's Leverage Ratio is less than 3.0 to 1.0 on the last day of such fiscal year.

(b) In the event of an Excess Cash Flow Offer, the Company will be required to purchase, on a pro rata basis, Securities and Euro Notes tendered pursuant to an offer by the Company for the Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company and FFBV, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of such Senior Subordinated Indebtedness, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in Section 4.10(c). If the aggregate purchase price of the Securities and Dollar

Notes (and other Senior Subordinated Indebtedness of the Company or FFBV) tendered pursuant to such offer is less than the Excess Cash Flow allotted to their purchase, the Company will be entitled to apply the remaining Excess Cash Flow in accordance with clause (a)(3) above. The Company shall not be required to make an Excess Cash Flow Offer to purchase Securities and Euro Notes (and other Senior Subordinated Indebtedness) pursuant to Section 4.10(a) if the Excess Cash Flow available therefor is less than $5.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Excess Cash Flow in any subsequent fiscal year).

(c)(1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Excess Cash Flow Offer, the Company shall deliver to the Trustee and send, by first-class mail to each Holder and Euro Notes Holder, a written notice stating that the Holder and Euro Notes Holder may elect to have his Securities and Euro Notes purchased by the Company either in whole or in part (subject to prorating as described in Section 4.10(b) in the event the Excess Cash Flow Offer is oversubscribed) in integral multiples of $1,000 of principal amount and E1,000 principal amount, respectively, at the applicable purchase price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date of such notice (the "Excess Cash Flow Purchase Date") and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders and Euro Notes Holders to make an informed decision (which at a minimum will include (A) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report which may be incorporated by reference (or corresponding successor reports), and (B) a description of material developments in the Company's business subsequent to the date of the latest of such Reports) and all instructions and materials necessary to tender Securities and Euro Notes pursuant to the Excess Cash Flow Offer, together with the information contained in clause (3).

(2) Not later than the date upon which written notice of an Excess Cash Flow Offer is delivered to the Trustee as provided below, the Company shall deliver to the Trustee an Officers' Certificate as to (A) the amount of the Excess Cash Flow Offer (the "Excess Cash Flow Offer Amount"), including information as to any other Senior



Subordinated Indebtedness of the Company or FFBV included in the Excess Cash Flow Offer, (B) the percentage of the Excess Cash Flow remaining after application in accordance with Section 4.10(a)(1) with respect to which such Excess Cash Flow Offer is being made and (C) the compliance of such allocation with the provisions of Section 4.10(a) and (b). On such date, the Company shall also irrevocably deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust) in Temporary Cash Investments, maturing on the last day prior to the Excess Cash Flow Purchase Date or on the Excess Cash Flow Purchase Date if funds are immediately available by open of business, an amount equal to the Excess Cash Flow Offer Amount to be held for payment in accordance with the provisions of this Section 4.10. If the Excess Cash Flow Offer includes other Senior Subordinated Indebtedness, the deposit described in the preceding sentence may be made with any other paying agent pursuant to arrangements satisfactory to the Trustee. Upon the expiration of the period for which the Excess Cash Flow Offer remains open (the "Excess Cash Flow Offer Period"), the Company shall deliver to the Trustee for cancellation the Securities and Euro Notes or portions thereof which have been properly tendered to and are to be accepted by the Company. The Trustee shall, on the Purchase Date, mail or deliver payment (or cause the delivery of payment) to each tendering Holder and the Euro Notes Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Securities and Euro Notes delivered by the Company to the Trustee is less than the Excess Cash Flow Offer Amount applicable to the Securities and Euro Notes, the Trustee shall deliver the excess to the Company immediately after the expiration of the Excess Cash Flow Offer Period for application by the Company in any manner permitted by this Indenture.

(3) Holders and Euro Notes Holders electing to have either a Security or a Euro Note purchased shall be required to surrender the Security or Euro Note, with an appropriate form duly completed, to the Company at the

address specified in the notice at least three Business Days prior to the Excess Cash Flow Purchase Date. Holders and Euro Notes Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the Excess Cash Flow Purchase Date, a telex, facsimile transmission or letter setting forth the name of the Holder or Euro Notes Holder, the principal amount of the Security or Euro Note which was delivered for purchase by the Holder or Euro Notes Holder and a statement that such Holder or Euro Notes Holder is withdrawing his election to have such Security or Euro Notes





purchased. Holders or Euro Notes Holders whose Securities or Euro Notes are purchased only in part shall be issued new Securities or Euro Notes equal in principal amount to the unpurchased portion of the Securities or Euro Notes surrendered.

(4) At the time the Company delivers Securities or Euro Notes to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Securities or Euro Notes are to be accepted by the Company pursuant to and in accordance with the terms of this Section 4.10. A Security or Euro Note shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder or Euro Notes Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities or Euro Notes pursuant to this Section 4.10. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 4.10, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.10 by virtue of its compliance with such securities laws or regulations.

SECTION 4.11. Future Guarantors. The Company shall cause each domestic Restricted Subsidiary that Guarantees any Indebtedness of the Company or any other Subsidiary Guarantor to, at the same time, execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Securities on the same terms and conditions as those set forth in Article 11 of this Indenture.

SECTION 4.12. Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company they would normally have knowledge of any Default and whether or not the signers know of any Default that occurred during such period. If they do, the certificate shall describe the Default, its status and what action the Company is taking or proposes to take with respect thereto. The Company also shall comply with TIA Section 314(a)(4).





SECTION 4.13. Further Instruments and Acts. The Company and the Subsidiary Guarantors will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper or as the Trustee may request to carry out more effectively the purpose of this Indenture.

## ARTICLE 5

## Successor Company

SECTION 5.01. When Company May Merge or Transfer Assets. The Company shall not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

(1) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia or under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Securities and this Indenture;

(2) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving pro forma effect to such transaction, the Successor Company would be able to Incur an additional $1.00 of Indebtedness pursuant to Section 4.03(a);

(4) immediately after giving pro forma effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of the Company immediately prior to such transaction;





(5) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture;

(6) in the event that the Successor Company in any merger is organized and existing under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada (any such merger, a "Foreign Jurisdiction Merger"), the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for U.S. Federal income tax purposes as a result of such transaction and will be subject to U.S. Federal income tax on the same amounts and at the same times as would have been the case if such transaction had not occurred; and

(7) in the event of a Foreign Jurisdiction Merger, the Company shall have delivered to the Trustee an Opinion of Counsel in the jurisdiction of the Successor Company to the effect that (A) any payment of interest or principal under or with respect to the Securities or the Guaranties will, after giving effect to such transaction, be exempt from any withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge of whatever nature imposed or levied by or on behalf of any jurisdiction from or through which payment is made or in which the payor is organized, resident or engaged in business for tax purposes and (B) no other taxes or income (including capital gains) will be payable by a Holder of Securities under the laws of any jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes in respect of the acquisition, ownership or disposition of the Securities, including the receipt of interest or principal thereon, provided that such Holder does not use or hold, and is not deemed to use or hold the Securities in carrying on a business in the jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes;

provided, however, that clause (3) and (4) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company or (B) the Company merging with an Affiliate of the Company solely for the

purpose and with the sole effect of reincorporating the Company in another jurisdiction.

The Successor Company shall be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, and the predecessor Company, except in the case of a lease, shall be released from the obligation to pay the principal of and interest on the Securities.

The Company shall not permit any Subsidiary Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless: (1) except in the case of a Subsidiary Guarantor that has been disposed of in its entirety to another Person (other than to the Company or an Affiliate of the Company), whether through a merger, consolidation or sale of Capital Stock or assets, the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person shall expressly assume, by a Guaranty Agreement, in a form satisfactory to the Trustee, all the obligations of such Subsidiary, if any, under its Subsidiary Guaranty of the Securities; (2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing; and (3) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such Guaranty Agreement, if any, complies with this Indenture.

## ARTICLE 6

## Defaults and Remedies

SECTION 6.01. Events of Default. An "Event of Default" occurs if:

(1) the Company defaults in any payment of interest on any Security when the same becomes due and payable, whether or not such payment shall be prohibited by Article 10, and such default continues for a period of 30 days;





(2) the Company (i) defaults in the payment of the principal of any Security when the same becomes due and payable at its Stated Maturity, upon optional redemption, upon declaration or otherwise, whether or not such payment shall be prohibited by Article 10, or (ii) fails to redeem or purchase Securities when required pursuant to this Indenture or the Securities, whether or not such redemption or purchase shall be prohibited by Article 10;

(3) the Company fails to comply with Section 5.01;

(4) the Company fails to comply with Section 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.09 or 4.11 (other than a failure to purchase Securities when required under Section 4.06 or 4.09) and such failure continues for 30 days after the notice specified below;

(5) the Company or any Subsidiary Guarantor fails to comply with any of its agreements in the Securities or this Indenture (other than those referred to in clause (1), (2), (3) or (4) above) and such failure continues for 60 days after the notice specified below;

(6) Indebtedness of any Subsidiary Guarantor, the Company or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid

or accelerated exceeds $10.0 million, or its foreign currency equivalent at the time;

(7) any Subsidiary Guarantor, the Company or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property; or

(D) makes a general assignment for the benefit of its creditors;

or takes any comparable action under any foreign laws relating to insolvency;





(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against any Subsidiary Guarantor, the Company or any Significant Subsidiary in an involuntary case;

(B) appoints a Custodian of any Subsidiary Guarantor, the Company or any Significant Subsidiary or for any substantial part of its property; or

(C) orders the winding up or liquidation of any Subsidiary Guarantor, the Company or any Significant Subsidiary;

or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days;

(9) any judgment or decree for the payment of money in excess of $10.0 million or its foreign currency equivalent at the time is entered against any Subsidiary Guarantor, the Company or any Significant Subsidiary, remains outstanding for a period of 60 days following the entry of such judgment or decree and is not discharged, waived or the execution thereof stayed within 10 days after the notice specified below; or

(10) a Subsidiary Guaranty ceases to be in full force and effect (other than in accordance with the terms of this Indenture) or a Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guaranty.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clauses (4), (5) or (9) is not an Event of Default until the Trustee or the holders of at least 25% in principal amount of the outstanding Securities

notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default".

The Company shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any Event of Default under clause (6) or (10) and any event which with the giving of notice or the lapse of time would become an Event of Default under clause (4), (5) or (9), its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02. Acceleration. If an Event of Default (other than an Event of Default specified in Section 6.01(7) or (8) with respect to the Company) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the Securities by notice to the Company and the Trustee, may declare the principal of and accrued but unpaid interest on all the Securities to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default specified in Section 6.01(7) or (8) with respect to the Company occurs, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in principal amount of the Securities by notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of acceleration. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence





in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of Past Defaults. The Holders of a majority in principal amount of the Securities by notice to the Trustee may waive an existing Default and its consequences except (i) a Default in the payment of the principal of or interest on a Security, (ii) a Default arising from the failure to redeem or purchase any Security when required pursuant to this Indenture or (iii) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification or security satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 6.06. Limitation on Suits. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Securityholder may pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;

(2) the Holders of at least 25% in principal amount of the Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense;





(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the Securities do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

SECTION 6.07. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.08. Collection Suit by Trustee. If an Event of Default specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount then due and owing (together with interest on any unpaid interest to the extent lawful) and the amounts provided for in Section 7.07.

SECTION 6.09. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.07.





SECTION 6.10. Priorities. If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.07;

SECOND: to holders of Senior Indebtedness of the Company and, if such money or property has been collected from a Subsidiary Guarantor, to holders of Senior Indebtedness of such Subsidiary

Guarantor, in each case to the extent required by Article 10 and 12;

THIRD: to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

FOURTH: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10. At least 15 days before such record date, the Company shall mail to each Securityholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities.

SECTION 6.12. Waiver of Stay or Extension Laws. The Company (to the extent it may lawfully do so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or



impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 7

## Trustee

SECTION 7.01. Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section 7.01;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.





(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section 7.01.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 7.01 and to the provisions of the TIA.

SECTION 7.02. Rights of Trustee. (a) The Trustee may conclusively rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through agents or attorneys and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute wilful misconduct or negligence.





(e) The Trustee may consult with counsel of its choice, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Securities shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(g) The Trustee shall be under no obligation to exercise any

of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture;

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder; and

(j) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.03. Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it



would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement of the Company in the Indenture or in any document issued in connection with the sale of the Securities or in the Securities other than the Trustee's certificate of authentication.

SECTION 7.05. Notice of Defaults. If a Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Security (including payments pursuant to the mandatory redemption provisions of such Security, if any), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Securityholders.

SECTION 7.06. Reports by Trustee to Holders. As promptly as practicable after each May 15 beginning with the May 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Securityholder a brief report dated as of May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange (if any) on which the Securities are listed. The Company agrees to notify promptly the Trustee whenever the Securities become listed on any stock exchange and of any delisting thereof.

SECTION 7.07. Compensation and Indemnity. The Company shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it,

including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the



Trustee's agents, counsel, accountants and experts. The Company shall indemnify each of the Trustee and any predecessor Trustee and their agents against any and all loss, damage, claims, liability or expense (including attorneys' fees and taxes (other than taxes based upon, measured by, or determined by the income of the Trustee)) incurred by it in connection with the administration of this trust and the performance of its duties hereunder including the costs and expenses of defending itself against any claim (whether asserted by the Company or any Holder or any other Person). The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee may have separate counsel and the Company shall pay the fees and expenses of such counsel. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own wilful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section 7.07, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Securities.

The Company's payment obligations pursuant to this Section 7.07 shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(7) or (8) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

SECTION 7.08. Replacement of Trustee. The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the Securities may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Company shall remove the Trustee if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.



If the Trustee resigns, is removed by the Company or by the Holders of a majority in principal amount of the Securities and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 60 days

after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Securities may petition any court of competent jurisdiction at the expense of the Company for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 7.08, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

SECTION 7.09. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any



successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 7.10. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Section 310(a). The Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 7.11. Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

## ARTICLE 8

## Discharge of Indenture; Defeasance

SECTION 8.01. Discharge of Liability on Securities; Defeasance. (a) When (1) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.07) for cancellation or (2) all outstanding Securities have become due and payable, whether at maturity or on a redemption date as a result of the mailing of a notice of redemption pursuant to Article 3 hereof and the Company irrevocably deposits with the Trustee funds sufficient to pay at maturity or upon redemption all outstanding Securities, including interest thereon to maturity or such redemption date (other than Securities replaced pursuant to Section 2.07), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 8.01(c), cease to be of further effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company.

(b) Subject to Sections 8.01(c) and 8.02, the Company at any time may terminate (1) all its obligations under the Securities and this Indenture ("legal defeasance option") or (2) its obligations under Sections 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.09, 4.10 and 4.11 and the operation of Sections 6.01(4), 6.01(6), 6.01(7), 6.01(8) and 6.01(9) (but, in the case of Sections 6.01(7) and (8), with respect only to Significant Subsidiaries) and the limitations contained in Sections 5.01(3) and 5.01(4) ("covenant defeasance option"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Securities may not be accelerated because of an Event of Default with respect thereto. If the Company exercises its covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default specified in Sections 6.01(4), 6.01(6), 6.01(7), 6.01(8) and 6.01(9) (but, in the case of Sections 6.01(7) and (8), with respect only to Significant Subsidiaries) or because of the failure of the Company to comply with Sections 5.01(3) and 5.01(4). If the Company exercises its legal defeasance option or its covenant defeasance option, each Subsidiary Guarantor, if any, shall be released from all its obligations with respect to its Subsidiary Guaranty.

Upon satisfaction of the conditions set forth herein and upon request of the Company, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(c) Notwithstanding clauses (a) and (b) above, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.08, 7.07 and 7.08 and in this Article 8 shall survive until the Securities have been paid in full. Thereafter, the Company's obligations in Sections 7.07, 8.04 and 8.05 shall survive.

SECTION 8.02. Conditions to Defeasance. The Company may exercise its legal defeasance option or its covenant defeasance option only if:

(1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal of and interest on the Securities to maturity or redemption, as the case may be;

(2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments



of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Securities to maturity or redemption, as the case may be;

(3) 123 days pass after the deposit is made and during the 123-day period no Default specified in Sections 6.01(7) or (8) with respect to the Company occurs which is continuing at the end of the period;

(4) the deposit does not constitute a default under any other agreement binding on the Company and is not prohibited by Article 10;

(5) the Company delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

(6) in the case of the legal defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel stating that

(A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (B) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(7) in the case of the covenant defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(8) the Company delivers to the Trustee an Opinion of Counsel in the jurisdiction or organization of the Company (if other than the United States) to the effect





that (A) Holders will not recognize income, gain or loss income tax purposes of such jurisdiction a result of such deposit and defeasance, and will be subject to income tax of such jurisdiction on the same amounts, and in the same manner and at the same times as would have been the case if such deposit and defeasance, had not occurred; and

(9) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Securities as contemplated by this Article 8 have been complied with.

Before or after a deposit, the Company may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date in accordance with Article 3.

SECTION 8.03. Application of Trust Money. The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to this Article 8. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Securities. Money and securities so held in trust are not subject to Article 10.

SECTION 8.04. Repayment to Company. The Trustee and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Securityholders entitled to the money must look to the Company for payment as general creditors.

SECTION 8.05. Indemnity for Government Obligations. The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

SECTION 8.06. Reinstatement. If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining

or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 8; provided, however, that, if the Company has made any payment of interest on or principal of any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money or U.S. Government Obligations held by the Trustee or Paying Agent.

## ARTICLE 9

## Amendments

SECTION 9.01. Without Consent of Holders. The Company, the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to or consent of any Securityholder:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 5;

(3) to provide for uncertificated Securities in addition to or in place of certificated Securities; provided, however, that the uncertificated Securities are issued in registered form for purposes of Section 163(f) of the Code or in a manner such that the uncertificated Securities are described in Section 163(f)(2)(B) of the Code;

(4) to make any change in Article 10 that would limit or terminate the benefits available to any holder of Senior Indebtedness of the Company or of a Subsidiary Guarantor (or Representatives therefor) under Article 10 or 12;

(5) to add guarantees with respect to the Securities, including any Subsidiary Guaranties, or to secure the Securities;

(6) to add to the covenants of the Company or a Subsidiary Guarantor for the benefit of the Holders or to surrender any right or power herein conferred upon the Company or a Subsidiary Guarantor;



(7) to comply with any requirements of the SEC in connection with qualifying, or maintaining the qualification of, this Indenture under the TIA; or

(8) to make any change that does not adversely affect the rights of any Securityholder.

An amendment under this Section 9.01 may not make any change that adversely affects the rights under Article 10 or 12 of any holder of Senior Indebtedness of the Company or of a Subsidiary Guarantor then outstanding unless the holders of such Senior Indebtedness (or any group or Representative thereof authorized to give a consent) consent to such change.

After an amendment under this Section 9.01 becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.01.

SECTION 9.02. With Consent of Holders. The Company, the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of at least a majority in principal amount of the Securities then outstanding (including consents obtained in connection with a tender offer or exchange for the Securities). However, without the consent of each Securityholder affected thereby, an amendment may not:

(1) reduce the amount of Securities whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Security;

(3) reduce the principal amount of or extend the Stated Maturity of any Security;

(4) reduce the amount payable upon the redemption of any Security or change the time at which any Security may be redeemed in accordance with Article 3;

(5) make any Security payable in money other than that stated in the Security;

(6) make any changes in the ranking or priority of any Security that would adversely affect the Securityholders;





(7) make any change in Section 6.04 or 6.07 or the second sentence of this Section 9.02; or

(8) make any change in any Subsidiary Guaranty that would adversely affect the Securityholders.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

An amendment under this Section 9.02 may not make any change that adversely affects the rights under Article 10 or 12 of any holder of Senior Indebtedness of the Company or of a Subsidiary Guarantor then outstanding unless the holders of such Senior Indebtedness (or any group or Representative thereof authorized to give a consent) consent to such change.

After an amendment under this Section 9.02 becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.02.

SECTION 9.03. Compliance with Trust Indenture Act. Every amendment to this Indenture or the Securities shall comply with the TIA as then in effect.

SECTION 9.04. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Security shall bind the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent or waiver is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder. An amendment or waiver becomes effective upon the execution of such amendment or waiver by the Trustee.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Securityholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding

paragraph, those Persons who were Securityholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 9.05. Notation on or Exchange of Securities. If an amendment changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment.

SECTION 9.06. Trustee To Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

SECTION 9.07. Payment for Consent. Neither the Company nor any Affiliate of the Company shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Securities unless such consideration is offered to be paid to all Holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.



ARTICLE 10

Subordination

SECTION 10.01. Agreement To Subordinate. The Company agrees, and each Securityholder by accepting a Security agrees, that the Indebtedness evidenced by the Securities is subordinated in right of payment, to the extent and in the manner provided in this Article 10, to the prior payment of all Senior Indebtedness of the Company and that the subordination is for the benefit of and enforceable by the holders of such Senior Indebtedness. The Securities shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of the Company and only Indebtedness of the Company which is Senior Indebtedness of the Company shall rank senior to the Securities in accordance with the provisions set forth herein. All provisions of this Article 10 shall be subject to Section 10.12.

SECTION 10.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of the Company to creditors upon a total or partial liquidation or a total or partial dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property:

(1) holders of Senior Indebtedness of the Company shall be entitled to receive payment in full in cash of such Senior Indebtedness before Securityholders shall be entitled to receive any payment of principal of or interest on the Securities; and

(2) until such Senior Indebtedness is paid in full in cash, any payment or distribution to which Securityholders would be entitled but for this Article 10 shall be made to holders of such Senior Indebtedness as their interests may appear, except that Securityholders may receive shares of Capital Stock and any debt securities that are subordinated to such Senior Indebtedness to at least the same extent as the Securities.

SECTION 10.03. Default on Senior Indebtedness of the Company. The Company shall not pay the principal of or interest on the Securities or make any deposit pursuant to Section 8.01 and may not purchase, redeem or otherwise retire any Securities (collectively, "pay the Securities") if either of the following (a "Payment Default") occurs (1) any Designated Senior Indebtedness of the Company is not paid in cash when due; or (2) any other default on





Designated Senior Indebtedness of the Company occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash; provided, however, that the Company shall be entitled to pay the Securities without regard to the foregoing if the Company and the Trustee receive written notice approving such payment from the Representative of all Designated Senior Indebtedness with respect to which a Payment Default has occurred and is continuing. During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of the Company pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, the Company shall not pay the Securities for a period (a "Payment Blockage Period") commencing upon the receipt by the Trustee of (with a copy to the Company) written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period shall end earlier if such Payment Blockage Period is terminated (1) by written notice to the Trustee and the Company from the Person or Persons who gave such Blockage Notice; (2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing; or (3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash. Notwithstanding the provisions described in the immediately preceding two sentences (but subject to the provisions contained in the first sentence of this Section 10.03), unless the holders of such Designated Senior Indebtedness or the Representative of such Designated Senior Indebtedness shall have accelerated the maturity of such Designated Senior Indebtedness, the Company shall be entitled to resume payments on the Securities after termination of such Payment Blockage Period. The Securities shall not be subject to more than one Payment Blockage Period in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of the Company during such period; provided, however, that if any Blockage Notice within such 360-day period is given by or on behalf of any holders of Designated Senior Indebtedness of the Company (other than the Bank Indebtedness), the Representative of the Bank Indebtedness shall be entitled to give another Blockage Notice within such period; provided further, however, that in no event shall the total number of days during which any Payment Blockage Period or Periods is





in effect exceed 179 days in the aggregate during any 360-consecutive-day period, and there must be 181 days during any 360-consecutive-day period during which no Payment Blockage Period is in effect. For purposes of this Section 10.03, no default or event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of the Company initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 10.04. Acceleration of Payment of Securities. If payment of the Securities is accelerated because of an Event of Default, the Company or the Trustee shall promptly notify the holders of the Designated Senior Indebtedness of the Company (or their Representatives) of the

acceleration. If any Designated Senior Indebtedness of the Company is outstanding, neither the Company nor any subsidiary Guarantor including FFBV shall pay the Securities until five Business Days after the Representatives of all the issues of Designated Senior Indebtedness of the Company receive notice of such acceleration and, thereafter, shall be entitled to pay the Securities only if this Article 10 otherwise permits payment at that time.

SECTION 10.05. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 10 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness of the Company and pay it over to them as their interests may appear.

SECTION 10.06. Subrogation. After all Senior Indebtedness of the Company is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of such Senior Indebtedness to receive distributions applicable to such Senior Indebtedness. A distribution made under this Article 10 to holders of such Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the Company and Securityholders, a payment by the Company on such Senior Indebtedness.





SECTION 10.07. Relative Rights. This Article 10 defines the relative rights of Securityholders and holders of Senior Indebtedness of the Company. Nothing in this Indenture shall:

(1) impair, as between the Company and Securityholders, the obligation of the Company, which is absolute and unconditional, to pay principal of and interest on the Securities in accordance with their terms; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a Default, subject to the rights of holders of Senior Indebtedness of the Company to receive distributions otherwise payable to Securityholders.

SECTION 10.08. Subordination May Not Be Impaired by Company. No right of any holder of Senior Indebtedness of the Company to enforce the subordination of the Indebtedness evidenced by the Securities shall be impaired by any act or failure to act by the Company or by its failure to comply with this Indenture.

SECTION 10.09. Rights of Trustee and Paying Agent. Notwithstanding Section 10.03, the Trustee or Paying Agent shall continue to make payments on the Securities and shall not be charged with knowledge of the existence of facts that under this Article 10 would prohibit the making of any such payments unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives notice satisfactory to it that such payments are prohibited by this Article 10. The Company, the Registrar or co-registrar, the Paying Agent, a Representative or a holder of Senior Indebtedness of the Company shall be entitled to give the notice; provided, however, that, if an issue of Senior Indebtedness of the Company has a Representative, only the Representative shall be entitled to give the notice.

The Trustee in its individual or any other capacity shall be entitled to hold Senior Indebtedness of the Company with the same rights it would have if it were not Trustee. The Registrar and co-registrar and the Paying Agent shall be entitled to do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 10 with respect to any Senior Indebtedness of the Company which may at any time be held by it, to the same extent as any other holder of such Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 10 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

SECTION 10.10. Distribution or Notice to Representative. Whenever any Person is to make a distribution or give a notice to holders of Senior Indebtedness of the Company, such Person shall be entitled to make such distribution or give such notice to their Representative (if any).

SECTION 10.11. Article 10 Not To Prevent Events of Default or Limit Right To Accelerate. The failure to make a payment pursuant to the Securities by reason of any provision in this Article 10 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 10 shall have any effect on the right of the Securityholders or the Trustee to accelerate the maturity of the Securities.

SECTION 10.12. Trust Moneys Not Subordinated. Notwithstanding anything contained herein to the contrary, payments from money or the proceeds of U.S. Government Obligations held in trust under Article 8 by the Trustee for the payment of principal of and interest on the Securities shall not be subordinated to the prior payment of any Senior Indebtedness of the Company or subject to the restrictions set forth in this Article 10, and none of the Securityholders shall be obligated to pay over any such amount to the Company or any holder of Senior Indebtedness of the Company or any other creditor of the Company.

SECTION 10.13. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 10, the Trustee and the Securityholders shall be entitled to rely (1) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 10.02 are pending, (2) upon a certificate of the liquidating trustee or agent or other Person making such payment or distribution to the Trustee or to the Securityholders or (3) upon the Representatives of Senior Indebtedness of the Company for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of such Senior Indebtedness and other Indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 10. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any Person as a holder of Senior Indebtedness of the Company to participate in any payment or distribution pursuant to this Article 10, the Trustee shall be entitled





to request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such Person under this Article 10, and, if such evidence is not furnished, the Trustee shall be entitled to defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 10.

SECTION 10.14. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination between the Securityholders and the holders of Senior Indebtedness of the Company as provided in this Article 10 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 10.15. Trustee Not Fiduciary for Holders of Senior Indebtedness of the Company. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness of the Company and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Securityholders or the Company or any other Person, money or assets to which any holders of Senior Indebtedness of the Company shall be entitled by virtue of this Article 10 or otherwise. With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Indenture and no implied covenants or obligations with respect to holders of Senior Indebtedness shall be read into this Indenture against the Trustee.

SECTION 10.16. Reliance by Holders of Senior Indebtedness of the Company on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness of the Company, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of such Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.



ARTICLE 11

Subsidiary Guaranties

SECTION 11.01. Guaranties. Each Subsidiary Guarantor hereby unconditionally and irrevocably guarantees, jointly and severally, to each Holder and to the Trustee and its successors and assigns (a) the full and punctual payment of principal of and interest on the Securities when due, whether at maturity, by acceleration, by redemption or otherwise, and all other monetary obligations of the Company under this Indenture and the Securities and (b) the full and punctual performance within applicable grace periods of all other obligations of the Company under this Indenture and the Securities (all the foregoing being hereinafter collectively called the "Obligations"). Each Subsidiary Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from such Subsidiary Guarantor and that such Subsidiary Guarantor will remain bound under this Article 11 notwithstanding any extension or renewal of any Obligation.

Each Subsidiary Guarantor waives presentation to, demand of, payment from and protest to the Company of any of the Obligations and also waives notice of protest for nonpayment. Each Subsidiary Guarantor waives notice of any default under the Securities or the Obligations. The obligations of each Subsidiary Guarantor hereunder shall not be affected by (a) the failure of any Holder or the Trustee to assert any claim or demand or to enforce any right or remedy against the Company or any other Person under this Indenture, the Securities or any other agreement or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions of this Indenture, the Securities or any other agreement; (d) the release of any security held by any Holder or the Trustee for the Obligations or any of them; (e) the failure of any Holder or the Trustee to exercise any right or remedy against any other guarantor of the Obligations; or (f) except as set forth in Section 11.06, any change in the ownership of such Subsidiary Guarantor.

Each Subsidiary Guarantor further agrees that its Subsidiary Guaranty herein constitutes a guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder or the Trustee to any security held for payment of the Obligations.



Each Subsidiary Guaranty is, to the extent and in the manner set forth in Article 12, subordinated and subject in right of payment to the prior payment in full of the principal of and premium, if any, and interest on all Senior Indebtedness of the Subsidiary Guarantor giving such Subsidiary Guaranty and each Subsidiary Guaranty is made subject to such provisions of this Indenture.

Except as expressly set forth in Sections 8.01(b), 11.02 and 11.06, the obligations of each Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or

termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Subsidiary Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder or the Trustee to assert any claim or demand or to enforce any remedy under this Indenture, the Securities or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of such Subsidiary Guarantor or would otherwise operate as a discharge of such Subsidiary Guarantor as a matter of law or equity.

Each Subsidiary Guarantor further agrees that its Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation is rescinded or must otherwise be restored by any Holder or the Trustee upon the bankruptcy or reorganization of the Company or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder or the Trustee has at law or in equity against any Subsidiary Guarantor by virtue hereof, upon the failure of the Company to pay the principal of or interest on any Obligation when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, or to perform or comply with any other Obligation, each Subsidiary Guarantor hereby promises to and shall, upon receipt of written demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders or the Trustee an amount equal to the sum of (1) the unpaid amount of such Obligations, (2) accrued and



unpaid interest on such Obligations (but only to the extent not prohibited by law) and (3) all other monetary Obligations of the Company to the Holders and the Trustee.

Each Subsidiary Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Obligations guaranteed hereby until payment in full of all Obligations and all obligations to which the Obligations are subordinated as provided in Article 12. Each Subsidiary Guarantor further agrees that, as between it, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Obligations Guaranteed hereby may be accelerated as provided in Article 6 for the purposes of such Subsidiary Guarantor's Subsidiary Guaranty herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Obligations as provided in Article 6, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Subsidiary Guarantor for the purposes of this Section 11.01.

Each Subsidiary Guarantor also agrees to pay any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Section.

SECTION 11.02. Limitation on Liability. Any term or provision of this Indenture to the contrary notwithstanding, the maximum aggregate amount of the Obligations guaranteed hereunder by any Subsidiary Guarantor shall not exceed the maximum amount that can be hereby guaranteed without rendering this Indenture, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

Each Subsidiary Guarantor that makes a payment under its Guaranty will be entitled to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's pro rata portion of such payment based on the respective net assets of all the Subsidiary Guarantors at the time of such payment determined in accordance with GAAP.

SECTION 11.03. Successors and Assigns. This Article 11 shall be binding upon each Subsidiary Guarantor and its successors and assigns and shall enure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder

or the Trustee, the rights and



privileges conferred upon that party in this Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.

SECTION 11.04. No Waiver. Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Article 11 shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Article 11 at law, in equity, by statute or otherwise.

SECTION 11.05. Modification. No modification, amendment or waiver of any provision of this Article 11, nor the consent to any departure by any Subsidiary Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Subsidiary Guarantor in any case shall entitle such Subsidiary Guarantor to any other or further notice or demand in the same, similar or other circumstances.

SECTION 11.06. Release of Subsidiary Guarantor. Except in the case of FFBV's Guaranty of the Securities, upon the sale (including any sale pursuant to any exercise of remedies by a holder of Senior Indebtedness of the Company or of such Subsidiary Guarantor) or other disposition (including by way of consolidation or merger) of a Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of such Subsidiary Guarantor (in each case other than a sale or disposition to the Company or an Affiliate of the Company) or at such time as such Subsidiary Guarantor no longer Guarantees any other Indebtedness of the Company, such Subsidiary Guarantor shall be deemed released from all obligations under this Article 11 without any further action required on the part of the Trustee or any Holder. At the request of the Company, the Trustee shall execute and deliver an appropriate instrument evidencing such release.



## ARTICLE 12

## Subordination of Subsidiary Guaranties

SECTION 12.01. Agreement To Subordinate. Each Subsidiary Guarantor agrees, and each Securityholder by accepting a Security agrees, that the Indebtedness evidenced by such Subsidiary Guarantor's Subsidiary Guaranty is subordinated in right of payment, to the extent and in the manner provided in this Article 12, to the prior payment of all Senior Indebtedness of such Subsidiary Guarantor and that the subordination is for the benefit of and enforceable by the holders of such Senior Indebtedness. The Obligations of a Subsidiary Guarantor shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of such Subsidiary Guarantor and only Senior Indebtedness of such Subsidiary Guarantor (including such Subsidiary] Guarantor's Guaranty of Senior Indebtedness of the Company) shall rank senior to the Obligations of such Subsidiary Guarantor in accordance with the provisions set forth herein.

SECTION 12.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of any Subsidiary Guarantor to creditors upon a total or partial liquidation or a total or partial dissolution of such Subsidiary Guarantor or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to such Subsidiary Guarantor or its property:

(1) holders of Senior Indebtedness of such Subsidiary Guarantor shall be entitled to receive payment in full in cash of such Senior Indebtedness before Securityholders shall be entitled to receive any payment pursuant to the Subsidiary Guaranty of such Subsidiary Guarantor; and

(2) until the Senior Indebtedness of any Subsidiary Guarantor is paid in full in cash, any payment or distribution to which Securityholders would be entitled but for this Article 12 shall be made to holders of such Senior Indebtedness as their interests may appear, except that Securityholders may receive shares of Capital Stock and any debt securities of such Subsidiary Guarantor that are subordinated to such Senior Indebtedness to at least the same extent as Subsidiary Guaranty.

SECTION 12.03. Default on Senior Indebtedness of Subsidiary Guarantor. No Subsidiary Guarantor shall make



its Subsidiary Guaranty or purchase, redeem or otherwise retire or defease any Securities or other Obligations (collectively, "pay its Subsidiary Guaranty") if either of the following (a "Payment Default") occurs (1) any Designated Senior Indebtedness of such Subsidiary Guarantor is not paid in cash when due; or (2) any other default on Designated Senior Indebtedness of such Subsidiary Guarantor occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms; unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash; provided, however, that any Subsidiary Guarantor shall be entitled to pay its Subsidiary Guaranty without regard to the foregoing if such Subsidiary Guarantor and the Trustee receive written notice approving such payment from the Representative of all Designated Senior Indebtedness with respect to which a Payment Default has occurred and is continuing. During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of such Subsidiary Guarantor pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, such Subsidiary Guarantor shall not pay its Subsidiary Guaranty for a period (a "Payment Blockage Period") commencing upon the receipt by the Trustee of (with a copy to such Subsidiary Guarantor) written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period shall end earlier if such Payment Blockage Period is terminated (1) by written notice to the Trustee and such Subsidiary Guarantor from the Person or Persons who gave such Blockage Notice; (2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing; or (3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash. Notwithstanding the provisions described in the immediately preceding two sentences (but subject to the provisions contained in the first sentence of this Section 12.03), unless the holders of such Designated Senior Indebtedness giving such Payment Notice or the Representative of such Designated Senior Indebtedness shall have accelerated the maturity of such Designated Senior Indebtedness, any Subsidiary Guarantor shall be entitled to resume payments pursuant to its Subsidiary Guaranty after termination of such Payment Blockage Period. No Subsidiary Guarantor shall be subject to more than one Blockage Period in any 360-consecutive day period, irrespective of the number of



defaults with respect to Designated Senior Indebtedness of such Subsidiary Guarantor during such period; provided, however, that if any Blockage Notice within such 360-day period is given by or on behalf of any holders of Designated Senior Indebtedness of such Subsidiary Guarantor (other than the Bank Indebtedness), the Representative of the Bank Indebtedness shall be entitled to give another Blockage Notice within such period; provided further, however, that

in no event shall the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any 360-consecutive-day period, and there must be 181 days during any 360-consecutive-day period during which no Payment Blockage Period is in effect. For purposes of this Section 12.03, no default or event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of such Subsidiary Guarantor initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 12.04. Demand for Payment. If a demand for payment is made on a Subsidiary Guarantor pursuant to Article 11, the Trustee shall promptly notify the holders of the Designated Senior Indebtedness of such Subsidiary Guarantor (or their Representatives) of such demand.

SECTION 12.05. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 12 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness of the applicable Subsidiary Guarantor and pay it over to them or their Representatives as their interests may appear.

SECTION 12.06. Subrogation. After all Senior Indebtedness of a Subsidiary Guarantor is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of such Senior Indebtedness to receive distributions applicable to Senior Indebtedness of such Subsidiary Guarantor. A distribution made under this Article 12 to holders of such Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the relevant Subsidiary Guarantor and Securityholders, a payment by such Subsidiary Guarantor on such Senior Indebtedness.



SECTION 12.07. Relative Rights. This Article 12 defines the relative rights of Securityholders and holders of Senior Indebtedness of a Subsidiary Guarantor. Nothing in this Indenture shall:

(1) impair, as between a Subsidiary Guarantor and Securityholders, the obligation of such Subsidiary Guarantor, which is absolute and unconditional, to pay its Subsidiary Guaranty to the extent set forth in Article 11; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a default by such Subsidiary Guarantor under its Subsidiary Guaranty, subject to the rights of holders of Senior Indebtedness of such Subsidiary Guarantor to receive distributions otherwise payable to Securityholders.

SECTION 12.08. Subordination May Not Be Impaired by Company or any Subsidiary Guarantor. No right of any holder of Senior Indebtedness of any Subsidiary Guarantor to enforce the subordination of the Subsidiary Guaranty of such Subsidiary Guarantor shall be impaired by any act or failure to act by the Company or such Subsidiary Guarantor or by their failure to comply with this Indenture.

SECTION 12.09. Rights of Trustee and Paying Agent. Notwithstanding Section 12.03, the Trustee or Paying Agent shall continue to make payments on any Subsidiary Guaranty and shall not be charged with knowledge of the existence of facts that would prohibit the making of any such payments unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives written notice satisfactory to it that such payments are prohibited by this Article 12. The Company, the relevant Subsidiary Guarantor, the Registrar or co-registrar, the Paying Agent, a Representative or a holder of Senior Indebtedness of such Subsidiary Guarantor shall be entitled to give the notice; provided, however, that, if an issue of Senior Indebtedness of any Subsidiary Guarantor has a Representative, only the Representative shall be entitled to give the notice.

The Trustee in its individual or any other capacity shall be entitled to hold Senior Indebtedness of any Subsidiary Guarantor with the same rights it would have if it were not the Trustee. The Registrar and co-registrar and the Paying Agent may do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 12 with respect to any Senior Indebtedness of any Subsidiary Guarantor which may at any time be held by



it, to the same extent as any other holder of such Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 12 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

SECTION 12.10. Distribution or Notice to Representative. Whenever any Person is to make a distribution or give a notice to holders of Senior Indebtedness of any Subsidiary Guarantor, such Person shall be entitled to make such distribution or give such notice to their Representative (if any).

SECTION 12.11. Article 12 Not To Prevent Events of Default or Limit Right To Demand Payment. The failure to make a payment pursuant to a Subsidiary Guaranty by reason of any provision in this Article 12 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 12 shall have any effect on the right of the Securityholders or the Trustee to make a demand for payment on any Subsidiary Guarantor pursuant to its Subsidiary Guaranty.

SECTION 12.12. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 12, the Trustee and the Securityholders shall be entitled to rely (1) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 12.02 are pending, (2) upon a certificate of the liquidating trustee or agent or other Person making such payment or distribution to the Trustee or to the Securityholders or (3) upon the Representatives for the holders of Senior Indebtedness of any Subsidiary Guarantor for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of such Senior Indebtedness and other indebtedness of such Subsidiary Guarantor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 12. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any Person as a holder of Senior Indebtedness of any Subsidiary Guarantor to participate in any payment or distribution pursuant to this Article 12, the Trustee shall be entitled to request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness of such Subsidiary Guarantor held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such Person under this Article 12, and, if such evidence is not furnished, the Trustee shall be entitled to defer any



payment to such Person pending judicial determination as to the right of such Person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 12.

SECTION 12.13. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination between the Securityholders and the holders of Senior Indebtedness of any Subsidiary Guarantor as provided in this Article 12 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 12.14. Trustee Not Fiduciary for Holders of Senior Indebtedness of Subsidiary Guarantor. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness of any Subsidiary Guarantor

and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Securityholders or the Company or any other Person, money or assets to which any holders of such Senior Indebtedness shall be entitled by virtue of this Article 12 or otherwise.

SECTION 12.15. Reliance by Holders of Senior Indebtedness of Subsidiary Guarantors on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness of any Subsidiary Guarantor, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.



ARTICLE 13

Miscellaneous

SECTION 13.01. Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 13.02. Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail addressed as follows:

if to the Company or any Subsidiary Guarantor:

Flowserve Corporation
222 West Las Colinas Blvd.
Suite 1500
Irving, TX 75039

Attention of Renee Hornbaker

if to the Trustee:

The Bank of New York
101 Barclay Street, Floor 21W
New York, NY 10286

Attention of Corporate Trust
Administration-Global Finance Unit

The Company, any Subsidiary Guarantor or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it. Notices delivered to the Trustee shall be effective when received.



SECTION 13.03. Communication by Holders with Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, any Subsidiary Guarantor, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

SECTION 13.04. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 13.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the individual making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

SECTION 13.06. When Securities Disregarded. In determining whether the Holders of the required principal



amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded. Also, subject to the foregoing, only Securities outstanding at the time shall be considered in any such determination.

SECTION 13.07. Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Securityholders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 13.08. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 13.09. Governing Law. This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

SECTION 13.10. No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Company or any Subsidiary Guarantor shall not have any liability for any obligations of the Company under the Securities or this Indenture or of such Subsidiary Guarantor under its Subsidiary Guaranty or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 13.11. Successors. All agreements of the Company in this Indenture and the Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.





SECTION 13.12. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 13.13. Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.





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

FLOWSERVE CORPORATION,

by /s/ RENEE J. HORNBAKER
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE FINANCE B.V.,

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Managing Director

by /s/ M. KATHLEEN MCVAY
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,

PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO.,
INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,



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KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,
INTERNATIONAL PIPING SERVICES
COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA,
INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN, INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.
PUMP INVESTMENTS, INC.
FLOWSERVE HOLDINGS, INC.
IPSCO HOLDING, INC.

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title:

THE BANK OF NEW YORK,

by /s/ LUIS PEREZ
---
Name: Luis Perez
Title: Assistant V.P.



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PROVISIONS RELATING TO INITIAL SECURITIES,

PRIVATE EXCHANGE SECURITIES
AND EXCHANGE SECURITIES

1. Definitions

1.1 Definitions

For the purposes of this Appendix the following terms shall have the meanings indicated below:

"Depository" means The Depository Trust Company, its nominees and their respective successors.

"Exchange Securities" means (1) the 12-1/4% Senior Subordinated Securities Due 2010 issued pursuant to the Indenture in connection with a Registered Exchange Offer pursuant to a Registration Rights Agreement and (2) Additional Securities, if any, issued pursuant to a registration statement filed with the SEC under the Securities Act.

"Initial Purchasers" means (1) with respect to the Initial Securities issued on the Issue Date, Credit Suisse First Boston Corporation, Banc of America Securities LLC, ABN AMRO Incorporated and Banc One Capital Markets, Inc., and (2) with respect to each issuance of Additional Securities, the Persons purchasing such Additional Securities under the related Purchase Agreement.

"Initial Securities" means (1) $290,000,000 aggregate principal amount of 12-1/4% Senior Subordinated Securities Due 2010 issued on the Issue Date and (2) Additional Securities, if any, issued in a transaction exempt from the registration requirements of the Securities Act.

"Private Exchange" means the offer by the Company, pursuant to a Registration Rights Agreement, to the Initial Purchasers to issue and deliver to each Initial Purchaser, in exchange for the Initial Securities held by the Initial Purchaser as part of its initial distribution, a like aggregate principal amount of Private Exchange Securities.

"Private Exchange Securities" means any 12-1/4% Senior Securities Subordinated Due 2010 issued in connection with a Private Exchange.

"Purchase Agreement" means (1) with respect to the Initial Securities issued on the Issue Date, the Purchase Agreement dated August 3, among the Company and the Initial



Purchasers, and (2) with respect to each issuance of Additional Securities, the purchase agreement or underwriting agreement among the Company and the Persons purchasing such Additional Securities.

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

"Registered Exchange Offer" means the offer by the Company, pursuant to a Registration Rights Agreement, to certain Holders of Initial Securities, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount at maturity of Exchange Securities registered under the Securities Act.

"Registration Rights Agreement" means (1) with respect to the Initial Securities issued on the Issue Date, the Registration Rights Agreement dated August 3, among the Company and the Initial Purchasers, and (2) with respect to each issuance of Additional Securities issued in a transaction exempt from the registration requirements of the Securities Act, the registration rights agreement, if any, among the Company and the Persons purchasing such Additional Securities under the related Purchase Agreement.

"Securities" means the Initial Securities, the Exchange Securities and the Private Exchange Securities, treated as a single class.

"Securities Act" means the Securities Act of 1933.

"Securities Custodian" means the custodian with respect to a Global Security (as appointed by the Depository), or any successor Person thereto and shall initially be the Trustee.

"Shelf Registration Statement" means the registration statement issued by the Company in connection with the offer and sale of Initial Securities or Private Exchange Securities pursuant to a Registration Rights Agreement.

"Transfer Restricted Securities" means Securities that bear or are required to bear the legend set forth in Section 2.3(b)hereto.



1.2 Other Definitions

| Term | Defined in Section: |
|---|---|
| "Agent Members" | 2.1(b) |
| "Global Security" | 2.1(a) |
| "Regulation S" | 2.1(a) |
| "Restricted Global Security" | 2.1(a) |
| "Rule 144A" | 2.1(a) |

2. The Securities.

2.1 (a) Form and Dating. Initial Securities offered and sold to a QIB in reliance on Rule 144A under the Securities Act ("Rule 144A") or in reliance on Regulation S under the Securities Act ("Regulation S"), in each case as provided in a Purchase Agreement, and Private Exchange Securities, as provided in a Registration Rights Agreement, shall be issued initially in the form of one or more permanent global Securities in definitive, fully registered form without interest coupons with the global securities legend and restricted securities legend set forth in Exhibit 1 hereto (each, a "Restricted Global Security"), which shall be deposited on behalf of the purchasers of the Initial Securities represented thereby with the Trustee, at its principal Corporate Trust Office, as custodian for the Depository (or with such other custodian as the Depository may direct), and registered in the name of the Depository or a nominee of the Depository, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository or its nominee as hereinafter provided. Exchange Securities shall be issued in global form (with the global securities legend set forth in Exhibit 1 hereto) or in certificated form at the option of the Holders thereof from time to time. Exchange Securities issued in global form and Restricted Global Securities are sometimes referred to in this Appendix as "Global Securities."

(b) Book-Entry Provisions. This Section 2.1(b) shall apply only to a Global Security deposited with or on behalf of the Depository.

The Company shall execute and the Trustee shall, in accordance with this Section 2.1(b), authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depository for such Global Security or Global Securities or the nominee of such Depository and (b) shall be delivered by the Trustee to such



Depository or pursuant to such Depository's instructions or held by the Trustee as custodian for the Depository.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository or by the Trustee as the

custodian of the Depository or under such Global Security, and the Company, the Trustee and any agent of the Company or the Trustee shall be entitled to treat the Depository as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices of such Depository governing the exercise of the rights of a holder of a beneficial interest in any Global Security.

(c) Certificated Securities. Except as provided in this Section 2.1 or Section 2.3 or 2.4, owners of beneficial interests in Restricted Global Securities shall not be entitled to receive physical delivery of certificated Securities.

2.2 Authentication. The Trustee shall authenticate and deliver: (1) on the Issue Date, an aggregate principal amount of $290,000,000 million 12-1/4% Senior Subordinated Securities Due 2010, (2) any Additional Securities for an original issue in an aggregate principal amount specified in the written order of the Company pursuant to Section 2.02 of the Indenture and (3) Exchange Securities or Private Exchange Securities for issue only in a Registered Exchange Offer or a Private Exchange, respectively, pursuant to a Registration Rights Agreement, for a like principal amount of Initial Securities, in each case upon a written order of the Company signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of Securities is to be authenticated and, in the case of any issuance of Additional Securities pursuant to Section 2.13 of the Indenture, shall certify that such issuance is in compliance with Section 4.03 of the Indenture.

2.3 Transfer and Exchange.

(a) Transfer and Exchange of Global Securities. (i) The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the



Depository, in accordance with this Indenture (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Depository therefor. A transferor of a beneficial interest in a Global Security shall deliver to the Registrar a written order given in accordance with the Depositary's procedures containing information regarding the participant account of the Depositary to be credited with a beneficial interest in the Global Security. The Registrar shall, in accordance with such instructions instruct the Depositary to credit to the account of the Person specified in such instructions a beneficial interest in the Global Security and to debit the account of the Person making the transfer the beneficial interest in the Global Security being transferred.

(ii) Notwithstanding any other provisions of this Appendix (other than the provisions set forth in Section 2.4), a Global Security may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(iii) In the event that a Restricted Global Security is exchanged for Securities in certificated registered form pursuant to Section 2.4 of this Appendix, prior to the consummation of a Registered Exchange Offer or the effectiveness of a Shelf Registration Statement with respect to such Securities, such Securities may be exchanged only in accordance with such procedures as are substantially consistent with the provisions of this Section 2.3 (including the certification requirements set forth on the reverse of the Initial Securities intended to ensure that such transfers comply with Rule 144A or Regulation S, as the case may be) and such other procedures as may from time to time be adopted by the Company.

(b) Legend.

(i) Except as permitted by the following paragraphs (ii), (iii) and (iv), each Security certificate evidencing the Restricted Global Securities (and all Securities issued in exchange therefor or in substitution thereof) shall bear a legend in substantially the following form:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR





OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE COMPANY, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Restricted Global Security) pursuant to Rule 144 under the Securities Act, the Registrar shall permit the transferee thereof to exchange such Transfer Restricted Security for a certificated Security that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security, if the transferor thereof certifies in writing to the Registrar that such sale or transfer was made in reliance on Rule 144 (such certification to be in the form set forth on the reverse of the Security).

(iii) After a transfer of any Initial Securities or Private Exchange Securities pursuant to and during the period of the effectiveness of a Shelf Registration Statement with respect to such Initial Securities or Private Exchange Securities, as the case may be, all requirements pertaining to legends on such Initial Security or such Private Exchange Security will cease to apply, the requirements requiring any such Initial Security or such Private Exchange Security issued to





certain Holders be issued in global form will cease to apply, and a certificated Initial Security or Private Exchange Security or an Initial Security or Private Exchange Security in global form, in each case without restrictive transfer legends, will be available to the transferee of the Holder of such Initial Securities or Private Exchange Securities upon exchange of such transferring Holder's certificated Initial Security or Private Exchange Security or directions to transfer such Holder's interest in the Global Security, as applicable.

(iv) Upon the consummation of a Registered Exchange Offer with respect to the Initial Securities, all requirements pertaining to such Initial Securities that Initial Securities issued to certain Holders be issued in global form will still apply with respect to Holders of such Initial Securities that do not exchange their Initial Securities, and Exchange Securities in certificated or global form will be available to Holders that exchange such Initial Securities in such Registered Exchange Offer.

(v) Upon the consummation of a Private Exchange with respect to the Initial Securities, all requirements pertaining to such Initial Securities that Initial Securities issued to certain Holders be issued in global form will still apply with respect to Holders of such Initial Securities that do not exchange their Initial Securities, and Private Exchange Securities in global form with the global securities legend and the Restricted Securities Legend set forth in Exhibit 1 hereto will be available to Holders that exchange such Initial Securities in such Private Exchange.

(c) Cancellation or Adjustment of Global Security. At such time as all beneficial interests in a Global Security have either been exchanged for certificated Securities, redeemed, purchased or canceled, such Global Security shall be returned to the Depository for cancellation or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for certificated Securities, redeemed, purchased or canceled, the principal amount of Securities represented by such Global Security shall be reduced and an adjustment shall be made on the books and records of the Trustee (if it is then the Securities Custodian for such Global Security) with respect to such Global Security, by the Trustee or the Securities Custodian, to reflect such reduction.



(d) Obligations with Respect to Transfers and Exchanges of Securities.

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate certificated Securities and Global Securities at the Registrar's or co-registrar's request.

(ii) No service charge shall be made for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charge payable upon exchange or transfer pursuant to Sections 3.06, 4.09 and 9.05 of the Indenture).

(iii) The Registrar or co-registrar shall not be required to register the transfer of or exchange of any Security for a period beginning 15 Business Days before the mailing of a notice of an offer to repurchase or redeem Securities or 15 Business Days before an interest payment date.

(iv) Prior to the due presentation for registration of transfer of any Security, the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Securities issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Securities surrendered upon such transfer or exchange.

(e) No Obligation of the Trustee.

(i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Security, a member of, or a participant in the Depository or other Person with respect to the accuracy of the records of the Depository or its nominee or of any participant or member thereof, with respect to any ownership interest in the Securities or with respect to the delivery to any





participant, member, beneficial owner or other Person (other than the Depository) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Securities shall be given or made only to or upon the order of the registered Holders (which shall be the Depository or its nominee in the case of a Global Security). The rights of beneficial owners in any Global Security shall be exercised only through the Depository subject to the applicable rules and procedures of the Depository. The Trustee may rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Depository participants, members or beneficial owners in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

2.4 Certificated Securities.

(a) A Restricted Global Security deposited with the Depository or with the Trustee as custodian for the Depository pursuant to Section 2.1 shall be transferred to the beneficial owners thereof in the form of certificated Securities in an aggregate principal amount equal to the principal amount of such Global Security, in exchange for such Global Security, only if such transfer complies with Section 2.3 and (i) the Depository notifies the Company that it is unwilling or unable to continue as Depository for such Restricted Global Security or if at any time such Depository ceases to be a "clearing agency" registered under the Exchange Act and a successor depositary is not appointed by the Company within 90 days of such notice, or (ii) an Event of Default has occurred and is continuing or (iii) the Company, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of certificated Securities under this Indenture.

(b) Any Restricted Global Security that is transferable to the beneficial owners thereof pursuant to this





Section 2.4 shall be surrendered by the Depository to the Trustee located at its principal corporate trust office in the Borough of Manhattan, The City of New York, to be so transferred, in whole or from time to time in part, without charge, and the Trustee shall authenticate and deliver, upon such transfer of each portion of such Restricted Global Security, an equal aggregate principal amount of certificated Initial Securities of authorized denominations. Any portion of a Restricted Global Security transferred pursuant to this Section 2.4 shall be executed, authenticated and delivered only in denominations of $1,000 principal amount and any integral multiple thereof and registered in such names as the Depository shall direct. Any certificated Initial Security or Private Exchange Security delivered in exchange for an interest in the Restricted Global

Security shall, except as otherwise provided by Section 2.3(b), bear the restricted securities legend set forth in Exhibit 1 hereto.

(c) Subject to the provisions of Section 2.4(b), the registered Holder of a Global Security shall be entitled to grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Securities.

(d) In the event of the occurrence of either of the events specified in Section 2.4(a), the Company shall promptly make available to the Trustee a reasonable supply of certificated Securities in definitive, fully registered form without interest coupons.



EXHIBIT 1
to
RULE 144A/REGULATION S APPENDIX

[FORM OF FACE OF INITIAL SECURITY]

[Global Securities Legend]

UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC) ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

[Restricted Securities Legend]

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED OF IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE COMPANY, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

No.: CUSIP No.:
ISIN No.:

12-1/4% Senior Subordinated Notes Due 2010

Flowserve Corporation, a New York corporation, promises to pay to Cede & Co, or registered assigns, the principal amount set forth on Schedule A hereto on August 15, 2010.

Interest Payment Dates: February 15 and August 15.

Record Dates: February 1 and August 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: August 8, 2000

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FLOWSERVE CORPORATION,

by
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE FINANCE B.V.,

by
---
Name: John M. Nanos
Title: Managing Director

by
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO., INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,

INTERNATIONAL PIPING SERVICES COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA, INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN, INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.
PUMP INVESTMENTS, INC.
FLOWSERVE HOLDINGS, INC.
IPSCO HOLDING, INC.

by
---
Name: John M. Nanos
Title:



TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK,
as Trustee, certifies
that this is one of
the Securities referred
to in the Indenture.

by
---
Authorized Signatory



[FORM OF REVERSE SIDE OF INITIAL SECURITY]

12-1/4% Senior Subordinated Notes Due 2010

1. Interest

Flowserve Corporation, a New York corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above; provided, however, that if a Registration Default (as defined in the Registration Rights Agreement) occurs, additional interest will accrue on this Security at a rate of 0.50% per annum (increasing by an additional 0.50% per annum after each consecutive 90-day period that occurs after the date on which such Registration Default occurs up to a maximum additional interest rate of 2.00%) from and

including the date on which any such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. The Company will pay interest semiannually on February 15 and August 15 of each year, commencing February 15, 2001. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 8, 2000. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

2. Method of Payment

The Company will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the February 1 or August 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Company will make all payments in respect of a certificated Security (including



principal, premium and interest) by mailing a check to the registered address of each Holder thereof; provided, however, that payments on a certificated Security will be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. Paying Agent and Registrar

Initially, The Bank of New York, a New York banking corporation (the "Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture

The Company issued the Securities under an Indenture dated as of August 8, 2000 ("Indenture"), among the Company, the Subsidiary Guarantors and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of the Indenture (the "Act"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Company. The Company shall be entitled, subject to its compliance with Section 4.03 of the Indenture, to issue Additional Securities pursuant to Section 2.13 of the Indenture. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor will be treated as a single class for all purposes under the Indenture. The Indenture contains covenants that limit the ability of the Company and its subsidiaries to incur additional indebtedness; pay dividends or distributions on, or redeem or repurchase capital stock; make investments; issue or sell capital stock of subsidiaries; engage in transactions with affiliates; transfer or sell assets; guarantee

indebtedness; restrict dividends or other payments of subsidiaries; consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. These covenants are subject to important exceptions and qualifications.

5. Optional Redemption

Except as set forth below, the Company shall not be entitled to redeem the Securities at its option prior to August 15, 2005.

On and after August 15, 2005, the Company shall be entitled at its option to redeem all or a portion of the Securities upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| Period | Redemption Price |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000% |

In addition, prior to August 15, 2003, the Company shall be entitled at its option on one or more occasions to redeem Securities (which includes Additional Securities, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Securities (which includes Additional Securities, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Public Equity Offerings; provided, however, that (1) at least 65% of such aggregate principal amount of Securities (which includes Additional Securities, if any) remains outstanding immediately after the occurrence of each such redemption (other than Securities held, directly or indirectly, by the Company or its Affiliates); and (2) each such redemption occurs within 60 days after the closing date of the related Public Equity Offering.





6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than $1,000 principal amount may be redeemed in part but only in whole multiples of $1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Company to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the related interest payment date) as provided in, and subject to the terms of, the Indenture.

8. Subordination

The Securities are subordinated to Senior Indebtedness of the Company, as defined in the Indenture. To the extent provided in the Indenture, Senior Indebtedness of the Company must be paid before the Securities may be paid. The Company agrees, and each Securityholder by accepting a Security agrees, to the subordination provisions contained in the Indenture and authorizes the Trustee to give it effect and appoints the Trustee as attorney-in-fact for such purpose.

9. Subsidiary Guaranties

The payment by the Company of the principal of, and premium and interest on, the Securities is fully and unconditionally guaranteed on a joint and several senior subordinated basis by each of the Subsidiary Guarantors.



10. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of $1,000 principal amount and whole multiples of $1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

11. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of it for all purposes.

12. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

13. Discharge and Defeasance

Subject to certain conditions, the Company at any time shall be entitled to terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

14. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture and the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal



amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company, the Subsidiary Guarantors and the Trustee shall be entitled to amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or

to comply with Article 5 of the Indenture, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to add guarantees with respect to the Securities, including Subsidiary Guaranties, or to secure the Securities, or to add additional covenants or surrender rights and powers conferred on the Company or the Subsidiary Guarantors, or to comply with any request of the SEC in connection with qualifying the Indenture under the Act, or to make certain changes in the subordination provisions, or to make any change that does not adversely affect the rights of any Securityholder.

15. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon acceleration or otherwise, or failure by the Company to redeem or purchase Securities when required; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, in certain cases subject to notice and lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company, the Significant Subsidiaries or the Subsidiary Guarantors if the amount accelerated (or so unpaid) exceeds $10 million; (v) certain events of bankruptcy or insolvency with respect to the Company, the Subsidiary Guarantors or the Significant Subsidiaries; (vi) certain judgments or decrees for the payment of money in excess of $10 million and (vii) certain defaults with respect to Subsidiary Guaranties. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Securities may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives indemnity or security satisfactory to it. Subject to certain limitations, Holders of a majority in principal



amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in the interest of the Holders.

16. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

17. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company, any Subsidiary Guarantor or the Trustee shall not have any liability for any obligations of the Company or any Subsidiary Guarantor under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

19. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).





20. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

21. Holders' Compliance with Registration Rights Agreement.

Each Holder of a Security, by acceptance hereof, acknowledges and agrees to the provisions of the Registration Rights Agreement, including the obligations of the Holders with respect to a registration and the indemnification of the Company to the extent provided therein.

22. GOVERNING LAW.

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

THE COMPANY WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE TO THE SECURITY HOLDER A COPY OF THE INDENTURE WHICH HAS IN IT THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO:

FLOWSERVE CORPORATION
222 WEST LAS COLINAS BLVD.
SUITE 1500
IRVING, TX 75039
ATTENTION: RENEE HORNBAKER





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ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

---

Date: _____ Your Signature: _____

---

Sign exactly as your name appears on the other side of this Security.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act after the later of the date of original issuance of such Securities and the last date, if any, on which such Securities were owned by the Company or any Affiliate of the Company, the undersigned confirms that such Securities are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

(1) [ ] to the Company; or

(2) [ ] pursuant to an effective registration statement under the Securities Act of 1933; or

(3) [ ] inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to





and in compliance with Rule 144A under the Securities Act of 1933; or

(4) [ ] outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act in compliance with Rule 904 under the Securities Act of 1933; or

(5) [ ] pursuant to the exemption from registration provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee shall be entitled to require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Company has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, such as the exemption provided by Rule 144 under such Act.

---

Signature

Signature Guarantee:

---

Signature must be guaranteed

---

Signature

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: _____

_____
NOTICE: To be executed by an executive officer



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[TO BE ATTACHED TO GLOBAL SECURITIES]

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The original principal amount of this Global Security is _____. The following increases or decreases in this Global Security have been made:

| Date of Exchange | Amount of decrease in Principal amount of this Global Security | Amount of increase in Principal amount of this Global Security | Principal amount of this Global Security following such decrease or increase) | Signature of authorized officer of Trustee or Securities Custodian |
|---|---|---|---|---|



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OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, check the box:

[ ]

If you want to elect to have only part of this Security purchased by the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, state the amount in principal amount: $o

Date: _____ Your Signature: _____
(Sign exactly as your name appears on the other side of this Security.)

Signature Guarantee: _____
(Signature must be guaranteed)

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar

in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.



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EXHIBIT A

[FORM OF FACE OF EXCHANGE SECURITY
OR PRIVATE EXCHANGE SECURITY]

*/**/

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*/If the Security is to be issued in global form add the Global Securities Legend from Exhibit 1 to Appendix A and the attachment from such Exhibit 1 captioned "TO BE ATTACHED TO GLOBAL SECURITIES] - SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY".]

**/If the Security is a Private Exchange Security issued in a Private Exchange to an Initial Purchaser holding an unsold portion of its initial allotment, add the Restricted Securities Legend from Exhibit 1 to Appendix A and replace the Assignment Form included in this Exhibit A with the Assignment Form included in such Exhibit 1.]

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No.: CUSIP No.:
ISIN No.:

12-1/4% Senior Subordinated Notes Due 2010

Flowserve Corporation, a New York corporation, promises to pay to Cede & Co, or registered assigns, the principal amount set forth on Schedule A hereto on August 15, 2010.

Interest Payment Dates: February 15 and August 15.

Record Dates: February 1 and August 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: August 8, 2000



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FLOWSERVE CORPORATION,

by /s/ RENEE J. HORNBAKER
---
Name: Renee J. Hornbaker

Title: Vice President and
Chief Financial
Officer

FLOWSERVE FINANCE B.V.,

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Managing Director

by /s/ M. KATHLEEN MCVAY
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE
BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING
COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO.,
INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,



INTERNATIONAL PIPING SERVICES
COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA,
INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN, INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.
PUMP INVESTMENTS, INC.

FLOWSERVE HOLDINGS, INC.
IPSCO HOLDING, INC.

by
---
Name: John M. Nanos
Title:



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TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

THE BANK OF NEW YORK,
as Trustee, certifies
that this is one of
the Securities referred
to in the Indenture.

by
---
Authorized Signatory



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[FORM OF REVERSE SIDE OF [EXCHANGE SECURITY
OR PRIVATE EXCHANGE] SECURITY]

12-1/4% Senior Subordinated Notes Due 2010

1. Interest

Flowserve Corporation, a New York corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above; provided, however, that if a Registration Default (as defined in the Registration Rights Agreement) occurs, additional interest will accrue on this Security at a rate of 0.50% per annum (increasing by an additional 0.50% per annum after each consecutive 90-day period that occurs after the date on which such Registration Default occurs up to a maximum additional interest rate of 2.00%) from and including the date on which any such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. The Company will pay interest semiannually on February 15 and August 15 of each year, commencing February 15, 2001. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 8, 2000. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

2. Method of Payment

The Company will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the February 1 or August 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Company will make all

payments in respect of a certificated Security (including principal, premium and interest) by mailing a check to the registered address of each Holder thereof; provided, however, that payments on a certificated Security will be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. Paying Agent and Registrar

Initially, The Bank of New York, a New York banking corporation (the "Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture

The Company issued the Securities under an Indenture dated as of August 8, 2000 ("Indenture"), among the Company, the Subsidiary Guarantors and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of the Indenture (the "Act"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Company. The Company shall be entitled, subject to its compliance with Section 4.03 of the Indenture, to issue Additional Securities pursuant to Section 2.13 of the Indenture. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor will be treated as a single class for all purposes under the Indenture. The Indenture contains covenants that limit the ability of the Company and its subsidiaries to incur additional indebtedness; pay dividends or distributions on, or redeem or repurchase capital stock; make investments; issue or sell capital stock of subsidiaries; engage in transactions





with affiliates; transfer or sell assets; guarantee indebtedness; restrict dividends or other payments of subsidiaries; consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. These covenants are subject to important exceptions and qualifications.

5. Optional Redemption

Except as set forth below, the Company shall not be entitled to redeem the Securities at its option prior to August 15, 2005.

On and after August 15, 2005, the Company shall be entitled at its option to redeem all or a portion of the Securities upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| Period | Redemption Price |
|---|---|

| | |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000% |

In addition, prior to August 15, 2003, the Company shall be entitled at its option on one or more occasions to redeem Securities (which includes Additional Securities, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Securities (which includes Additional Securities, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Public Equity Offerings; provided, however, that (1) at least 65% of such aggregate principal amount of Securities (which includes Additional Securities, if any) remains outstanding immediately after the occurrence of each such redemption (other than Securities held, directly or indirectly, by the Company or its Affiliates); and (2) each such redemption occurs within 60 days after the closing date of the related Public Equity Offering.





6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than $1,000 principal amount may be redeemed in part but only in whole multiples of $1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Company to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the related interest payment date) as provided in, and subject to the terms of, the Indenture.

8. Subordination

The Securities are subordinated to Senior Indebtedness of the Company, as defined in the Indenture. To the extent provided in the Indenture, Senior Indebtedness of the Company must be paid before the Securities may be paid. The Company agrees, and each Securityholder by accepting a Security agrees, to the subordination provisions contained in the Indenture and authorizes the Trustee to give it effect and appoints the Trustee as attorney-in-fact for such purpose.

9. Subsidiary Guaranties

The payment by the Company of the principal of, and premium and interest on, the Securities is fully and unconditionally guaranteed on a joint and several senior subordinated basis by each of the Subsidiary Guarantors.





10. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in

denominations of $1,000 principal amount and whole multiples of $1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

11. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of it for all purposes.

12. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

13. Discharge and Defeasance

Subject to certain conditions, the Company at any time shall be entitled to terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

14. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture and the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal



amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company, the Subsidiary Guarantors and the Trustee shall be entitled to amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to comply with Article 5 of the Indenture, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to add guarantees with respect to the Securities, including Subsidiary Guaranties, or to secure the Securities, or to add additional covenants or surrender rights and powers conferred on the Company or the Subsidiary Guarantors, or to comply with any request of the SEC in connection with qualifying the Indenture under the Act, or to make certain changes in the subordination provisions, or to make any change that does not adversely affect the rights of any Securityholder.

15. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon acceleration or otherwise, or failure by the Company to redeem or purchase Securities when required; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, in certain cases subject to notice and lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company, the Significant Subsidiaries or the Subsidiary Guarantors if the amount accelerated (or so unpaid) exceeds $10 million; (v) certain events of bankruptcy or insolvency with respect to the Company, the Subsidiary Guarantors or the Significant Subsidiaries; (vi) certain judgments or decrees for the payment of money in excess of $10 million and (vii) certain defaults with respect to Subsidiary Guaranties. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal

amount of the Securities may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives indemnity or security satisfactory to it. Subject to certain limitations, Holders of a majority in principal





amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in the interest of the Holders.

16. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

17. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company, and Subsidiary Guarantor or the Trustee shall not have any liability for any obligations of the Company or any Subsidiary Guarantor under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

19. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).





20. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

21. Holders' Compliance with Registration Rights Agreement.

Each Holder of a Security, by acceptance hereof, acknowledges and agrees to the provisions of the Registration Rights Agreement, including the

obligations of the Holders with respect to a registration and the indemnification of the Company to the extent provided therein.

22. GOVERNING LAW.

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

THE COMPANY WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE TO THE SECURITY HOLDER A COPY OF THE INDENTURE WHICH HAS IN IT THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO:

FLOWSERVE CORPORATION
222 WEST LAS COLINAS BLVD.
SUITE 1500
IRVING, TX 75039
ATTENTION: RENEE HORNBAKER



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ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

---

Date: _____ Your Signature: _____

---

Sign exactly as your name appears on the other side of this Security.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act after the later of the date of original issuance of such Securities and the last date, if any, on which such Securities were owned by the Company or any Affiliate of the Company, the undersigned confirms that such Securities are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

(1) [ ] to the Company; or

(2) [ ] pursuant to an effective registration statement under the Securities Act of 1933; or

(3) [ ] inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to

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and in compliance with Rule 144A under the Securities Act of 1933; or

(4) [ ] outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act in compliance with Rule 904 under the Securities Act of 1933; or

(5) [ ] pursuant to the exemption from registration provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee shall be entitled to require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Company has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, such as the exemption provided by Rule 144 under such Act.

---

Signature

Signature Guarantee:

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Signature must be guaranteed

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Signature

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

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NOTICE: To be executed by an executive officer



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[TO BE ATTACHED TO GLOBAL SECURITIES]

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The original principal amount of this Global Security is _____. The following increases or decreases in this Global Security have been made:

| Date of Exchange | Amount of decrease in Principal amount of this Global Security | Amount of increase in Principal amount of this Global Security | Principal amount of this Global Security following such decrease or increase | Signature of authorized officer of Trustee or Securities Custodian |
|---|---|---|---|---|





OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, check the box:

[ ]

If you want to elect to have only part of this Security purchased by the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, state the amount in principal amount: $o

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security.)

Signature Guarantee: _____

(Signature must be guaranteed)

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXECUTION COPY

EXHIBIT 4.8

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Flowserve Finance B.V.
Issuer

The Guarantors named herein

12-1/4% Senior Subordinated Securities Due 2010

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INDENTURE

Dated as of August 8, 2000

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The Bank of New York
Trustee

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CROSS-REFERENCE TABLE

| TIA Section | | Indenture Section |
|---|---|---|
| 310(a)(1) | ..... | 7.10 |
| (a)(2) | ..... | 7.10 |
| (a)(3) | ..... | N.A. |
| (a)(4) | ..... | N.A. |
| (b) | ..... | 7.08; 7.10 |
| (c) | ..... | N.A. |
| 311(a) | ..... | 7.11 |
| (b) | ..... | 7.11 |
| (c) | ..... | N.A. |
| 312(a) | ..... | 2.05 |
| (b) | ..... | 13.03 |
| (c) | ..... | 13.03 |
| 313(a) | ..... | 7.06 |
| (b)(1) | ..... | N.A. |
| (b)(2) | ..... | 7.06 |
| (c) | ..... | 11.02 |
| (d) | ..... | 7.06 |
| 314(a) | ..... | 4.02; 4.11; 13.02 |
| (b) | ..... | N.A. |
| (c)(1) | ..... | 13.04 |
| (c)(2) | ..... | 13.04 |
| (c)(3) | ..... | N.A. |
| (d) | ..... | N.A. |
| (e) | ..... | 13.05 |
| (f) | ..... | 4.10 |
| 315(a) | ..... | 7.01 |
| (b) | ..... | 7.05; 13.02 |
| (c) | ..... | 7.01 |
| (d) | ..... | 7.01 |
| (e) | ..... | 6.11 |
| 316(a)(last sentence) | ..... | 13.06 |
| (a)(1)(A) | ..... | 6.05 |
| (a)(1)(B) | ..... | 6.04 |

| | | |
|---|---|---|
| (a)(2) | ..... | N.A. |
| (b) | ..... | 6.07 |
| 317(a)(1) | ..... | 6.08 |
| (a)(2) | ..... | 6.09 |
| (b) | ..... | 2.04 |
| 318(a) | ..... | 13.01 |

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.



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ARTICLE 15

Miscellaneous





Page





INDENTURE dated as of August 8, 2000, among Flowserve Finance B.V., a Netherlands besloten vennootschap with corporate seat in Amsterdam (the "Issuer"), the GUARANTORS named herein and The Bank of New York, a New York banking corporation(the "Trustee").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Issuer's Initial Securities, Exchange Securities and Private Exchange Securities (collectively, the "Securities"):

ARTICLE 1

Definitions and Incorporation by Reference

SECTION 1.01. Definitions.

"Acquisition" means the acquisition by the Company, directly or indirectly, of 100% of the partnership interests of Ingersoll-Dresser Pump Company.

"Additional Assets" means any:

(1) property, plant or equipment used in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

"Additional Dollar Notes" means, subject to the Company's compliance with Section 4.03, 12-1/4% Senior Subordinated Securities Due 2010 issued from time to time after the Issue Date under the terms of the Dollar Notes Indenture (other than pursuant to Section 2.06, 2.07, 2.09 or 3.06 of the Dollar Notes Indenture and other than Dollar Notes Exchange Securities or Dollar Notes Private Exchange Securities (in each case as defined in the Dollar Notes



Indenture) issued pursuant to an exchange offer for other Dollar Notes outstanding under the Dollar Notes Indenture).

"Additional Securities" means, subject to the Company's compliance with Section 4.03, 12-1/4% Senior Subordinated Securities Due 2010 issued from time to time after the Issue Date under the terms of this Indenture (other than pursuant to Section 2.06, 2.07, 2.09 or 3.06 of this Indenture and other than Exchange Securities or Private Exchange Securities issued pursuant to an exchange offer for other Securities outstanding under this Indenture).

"Affiliate" of any specified Person means: (1) any other Person, directly or indirectly, controlling or controlled by; or (2) under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of Sections 4.04, 4.06 and 4.07 only, "Affiliate" shall also mean any beneficial owner of Capital Stock representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary

(other than, in the case of clauses (1), (2) and (3), (A) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary (or to a Restricted Subsidiary so long as the aggregate fair market value of all assets transferred to Restricted Subsidiaries pursuant to this clause (A) does not exceed $50.0 million); (B) for purposes of Section 4.06 only, a disposition that constitutes a Restricted Payment permitted by Section 4.04 or a Permitted Investment; (C) sales or other dispositions of obsolete, worn-out or otherwise unsuitable assets or excess equipment in the ordinary course of business; and (D) a disposition of assets with a fair market value of less than $1,000,000).

Notwithstanding anything to the contrary set forth above, (x) unless, at the time of such disposition, the Company has Investment Grade Status, a disposition of Receivables and Related Assets shall be deemed to constitute an Asset Disposition and (y) a disposition of all or substantially all the assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of Sections 4.09 and/or 5.01 and not by the provisions of Section 4.06.

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Securities, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by (2) the sum of all such payments.

"Bank Indebtedness" means all Obligations pursuant to the Credit Agreement.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board and (in the case of the Issuer) the management board of the Issuer.

"Business Day" means each day other than a Saturday, Sunday or a day on which commercial banking



institutions are authorized or required by law to close in New York City, Amsterdam, London or Luxembourg.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Change of Control" means the occurrence of any of the following events:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person shall be deemed to have

"beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a majority of the total voting power of the Voting Stock of the Company (for the purposes of this clause (1), such other person shall be deemed to beneficially own any Voting Stock of a Person (the "specified person") held by an other Person (the "parent entity"), if such other person is the beneficial owner (as defined in this clause (1)), directly or indirectly, of a majority of the voting power of the Voting Stock of such parent entity);

(2) individuals who on the Issue Date constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of 66-2/3% of the directors of the Company then still in office who were either directors on the Issue Date or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or



(3) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person, other than a transaction following which in the case of a merger or consolidation transaction, securities that represented 100% of the Voting Stock of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) constitute at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commodity Agreement" means, in respect of a Person, any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in commodity prices.

"Company" means the party named as such in the Dollar Notes Indenture until a successor replaces it, and thereafter, means the successor and, for the purposes of any provision contained therein and required by the TIA, each other obligor on the Dollar Notes.

"Company Guaranty" means the Guarantee by the Company of the Issuer's obligations with respect to the Securities.

"Consent Decree" means the consent decree entered on July 28, 2000 in the U.S. District Court for the District of Columbia in the matter of United States of America v. Flowserve Corporation, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company relating to the purchase of Ingersoll-Dresser Pump Company by the Company.

"Consent Decree Assets" means the assets identified in the Consent Decree that the Company, Ingersoll-Dresser Pump Company and Ingersoll-Rand Company have been ordered and directed to divest in connection with the Acquisition.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of

(x) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters for

which internal financial statements are available ending on or prior to the date of such determination to

(y) Consolidated Interest Expense for such four fiscal quarters;

provided, however, that:

(1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition





for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Company or a Restricted

Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer (and shall include any applicable Pro Forma Cost Savings). If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest of such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months).





"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus, to the extent not included in such total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, without duplication:

(1) interest expense attributable to capital leases and the interest expense attributable to leases constituting part of a Sale/Leaseback Transaction;

(2) amortization of debt discount and debt issuance cost;

(3) capitalized interest;

(4) non-cash interest expenses;

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(6) net payments pursuant to Hedging Obligations;

(7) Preferred Stock dividends in respect of all Preferred Stock held by Persons other than the Company or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the issuer of such Preferred Stock);

(8) interest incurred in connection with Investments in discontinued operations;

(9) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by (or secured by the assets of) the Company or any Restricted Subsidiary and there shall have occurred and continues an event of default under such Indebtedness or any payment is actually made in respect of such Guarantee;

(10) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust; and

(11) any premiums, fees, discounts, expenses and losses on the sale of Receivables and Related Assets (and any amortization thereof) payable in connection





with a Receivables Program, as determined on a consolidated basis in conformity with GAAP.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

(2) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income of any Restricted Subsidiary that is not a Subsidiary Guarantor if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and





(B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain (but not loss) realized upon the sale or other disposition of any assets (other than any Consent Decree Assets) of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) extraordinary gains or losses; and

(6) the cumulative effect of a change in accounting principles.

Notwithstanding the foregoing, for the purposes of Section 4.04 only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of the Investments or return of capital to the Company or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under Section 4.04(a)(3)(C).

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company ending at least 45 days prior to the taking of any action for the purpose of which the determination is being made,

as the sum of:

(1) the par or stated value of all outstanding Capital Stock of the Company plus

(2) paid-in capital or capital surplus relating to such Capital Stock plus

(3) any retained earnings or earned surplus

less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock. In determining "Consolidated Net Worth," the Company shall exclude the impact of any write-off of deferred financing fees occurring in connection with any transaction subject to Section 5.01 of this Indenture for the purpose of which the determination is being made.





"Corporate Trust Office" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the dated hereof is located at 101 Barclay Street, Floor 21 West, New York, New York 10286. Attention: Corporate Trust Administration, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Holders and the Issuer).

"Credit Agreement" means the Credit Agreement to be entered into by and among the Company, certain of its Subsidiaries, the lenders referred to therein, Credit Suisse First Boston, New York branch, as Syndication Agent, Bank of America, N.A., as Administrative Agent, Collateral Agent and Swingline Lender, and ABN-AMRO Bank N.V., Bank One, and Salomon Smith Barney, Inc., as Co-Documentation Agents, together with the related documents thereto (including the term loans and revolving loans thereunder, any guarantees and security documents), as amended, extended, renewed, restated, refinanced, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to Refinance, in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under such Credit Agreement or a successor Credit Agreement, whether by the same or any other lender or group of lenders.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement designed to protect such Person against fluctuations in currency values.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" with respect to a Person means (1) the Bank Indebtedness; and (2) any other Senior Indebtedness of such Person which, at the date of determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least $25.0 million and is specifically designated by such Person in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of this Indenture.





"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Securities; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Securities shall not constitute Disqualified Stock if (1) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the Securities in Sections 4.06 and 4.09; and (2) any such requirement only becomes operative after compliance with such terms applicable to the Securities, including the purchase of any Securities tendered pursuant thereto.

"Dollar Notes" means the 12-1/4% Senior Subordinated Notes due 2010 (as defined therein) issued pursuant to the Dollar Notes Indenture.

"Dollar Notes Indenture" means the Indenture dated August 8, 2000 among the Company, the Bank of New York, and the guarantors named therein.

"Dollar Notes Holder" means the person in whose name a Dollar Note is registered on the Registrar's (as defined in the Dollar Notes Indenture) books.

"EBITDA" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) all income tax expense of the Company and its consolidated Restricted Subsidiaries;



(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Company and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid operating activity item that was paid in cash in a prior period);

(4) all other non-cash charges of the Company and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period); and

(5) cash integration and restructuring charges in connection with the Acquisition and taken with respect to periods ended on or prior to December 31, 2001, in an aggregate amount not to exceed $65.0 million;

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non- cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

"Eligible Indebtedness" means any indebtedness other than:

(1) Indebtedness in the form of, or represented by, bonds or other securities or any guarantee thereof (other than a guarantee of Indebtedness of the Company in the form of, or represented by, bonds or other securities); and

(2) Indebtedness that is, or may be, quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the Securities Act).





"European Economic Area" means the member nations of the European Economic Area pursuant to the Oporto Agreement on the European Economic Area dated May 2, 1992, as amended.

"Euro Equivalent" means with respect to any monetary amount in a currency other than Euros, at any time of determination thereof, the amount of Euros obtained by converting such foreign currency involved in such computation into Euros at the spot rate for the purchase of Euros with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

"European Government Obligations" means direct non-callable obligations of, or non-callable obligations permitted by, any member nation of the European Union, the payment or guarantee of which is secured by the full faith and credit of the respective nation, provided that such nation has a credit rating at least equal to that of the highest rated member nation of the European Economic Area.

"European Union" means the member nations to the third stage of economic and monetary union pursuant to the Treaty of Rome establishing the European Community, as amended by the Treaty on European Union, signed at Maastricht on February 7, 1992.

"Excess Cash Flow", with respect to the Company, has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Securities" means the debt securities of the Issuer issued pursuant to this Indenture in exchange for, and in an aggregate principal amount equal to, the Initial Securities, in compliance with the terms of the Registration Rights Agreement.

"Facilities" means the Term Loan Facilities and the Revolving Credit Facilities.

"Foreign Restricted Subsidiary" means a Restricted Subsidiary that is incorporated in a jurisdiction other than the United States or a State thereof or the District of Columbia and with respect to which more than 80% of any of its sales, earnings or assets (determined on a consolidated basis in accordance with GAAP) are located in, generated from or derived from operations located in territories





outside of the United States of America and jurisdictions outside the United States of America.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants;

(2) statements and pronouncements of the Financial Accounting Standards Board;

(3) such other statements by such other entity as approved by a significant segment of the accounting profession; and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

All ratios and computations based on GAAP contained in this Indenture shall be computed in conformity with GAAP.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.



"Guaranty Agreement" means a supplemental indenture, in a form satisfactory to the Trustee, pursuant to which a Subsidiary Guarantor guarantees the Issuer's obligations with respect to the Securities on the terms provided for in this Indenture.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holder" or "Securityholder" means the Person in whose name a Security is registered on the Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall not be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations

of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance, bank guaranty or similar credit transaction (other than obligations with respect thereto securing obligations (other than obligations described in clauses (1) through (3) above) entered





into in the ordinary course of business of such Person to the extent such letters of credit, banker's acceptances, bank guaranties or similar credit transactions are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following payment thereon);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with this Indenture (but excluding, in each case, any accrued dividends);

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets and the amount of the obligation so secured; and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

"Indenture" means this Indenture as amended or supplemented from time to time.

"Intercompany Loans" means the loans by the Issuer to the Company or any of the Company's Wholly Owned Subsidiaries.

"Interest Rate Agreement" means in respect of a Person any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect such Person against fluctuations in interest rates.





"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary", the definition of "Restricted Payment" and Section 4.04:

(1) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (A) the Company's "Investment" in such Subsidiary at the time of such redesignation less (B) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Investment Grade Status" means that the credit rating of the Company's senior unsecured, non-credit- enhanced long-term debt is (a) "BBB-" or higher according to Standard & Poor's Rating Group or (b) "Baa3" or higher according to Moody's Investors Service, Inc.

"Issuer" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the TIA, each other obligor on the indenture securities.

"Issue Date" means August 8, 2000.

"Lenders" has the meaning specified in the Credit Agreement.



"Leverage Ratio" has the meaning specified in the Credit Agreement as in effect on the Issue Date.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.





"Obligations" means with respect to any Indebtedness all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, and other amounts payable pursuant to the documentation governing such Indebtedness.

"OECD" means the Organization for Economic Cooperation and Development.

"Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer or the Secretary of the Company or (in the case of the Issuer) any managing director of the Issuer.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company, the Issuer or the Trustee.

"Permitted Employee Stock Purchase Loans" means loans, in an aggregate amount outstanding at any time not to exceed $30.0 million, made by third parties (other than any Affiliate of the Company) to employees of the Company and its Subsidiaries who are participants in the Company's stock purchase program to enable such employees to purchase common stock of the Company.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in:

(1) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is a Related Business;

(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(3) cash and Temporary Cash Investments;

(4) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include





such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such

Restricted Subsidiary, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time;

(7) guaranties of Permitted Employee Stock Purchase Loans;

(8) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to the covenant described under Section 4.06;

(10) so long as no Default shall have occurred and be continuing (or result therefrom), in Unrestricted Subsidiaries in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (10) which at such time have not been repaid, does not exceed $25.0 million;

(11) so long as no Default shall have occurred and be continuing (or result therefrom), in any Person in an aggregate amount which, when taken together with the amount of all other Investments made pursuant to this clause (11) which at such time have not been repaid, does not exceed $25.0 million; and

(12) a trust, limited liability company, special purpose entity or other similar entity in connection with a Receivables Program; provided, however, that (A) such Investment is made by a Receivables Subsidiary and (B) the only assets transferred to such trust, limited liability company, special purpose entity or other similar entity consist of Receivables and Related Assets of such Receivables Subsidiary.



"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"principal" of a Security means the principal of the Security plus the premium, if any, payable on the Security which is due or overdue or is to become due at the relevant time.

"Pro Forma Cost Savings" means, with respect to any period, the reduction in costs that were (1) directly attributable to an asset acquisition and calculated on a basis that is consistent with Regulation S-X under the Securities Act in effect and applied as of the Issue Date; or (2) implemented by the business that was the subject of any such asset acquisition within 6 months of the date of such asset acquisition and that are supportable and quantifiable by the underlying accounting records of such business, in the case of each of (1) and (2), as if such reduction in costs had been effected as of the beginning of such period.

"Public Equity Offering" means an underwritten primary public offering of common stock of the Company pursuant to an effective registration statement under the Securities Act.

"Receivables and Related Assets" means accounts receivable, instruments, chattel paper, obligations, general intangibles and other similar assets, including interest in merchandise or goods, the sale or lease of which give rise to the foregoing, related contractual rights, guarantees, insurance proceeds, collections, other related assets and proceeds of all the foregoing.

"Receivables Program" means with respect to any Person, any

accounts receivable securitization program pursuant to which such Person pledges, sells or otherwise transfers or encumbers its accounts receivable, including a trust, limited liability company, special purpose entity or other similar entity.





"Receivables Subsidiary" means a Wholly Owned Subsidiary (i) created for the purpose of financing receivables created in the ordinary course of business of the Company and its Subsidiaries and (ii) the sole assets of which consist of Receivables and Related Assets of the Company and its Subsidiaries and related Permitted Investments.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company, the Issuer or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with this Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced; and

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced;

provided further, however, that Refinancing Indebtedness shall not include (A) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or (B) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Registration Rights Agreement" means the Registration Rights Agreement dated August 3, 2000 among the Company, the Issuer, the Subsidiary Guarantors, Credit Suisse First Boston (Europe) Limited, Bank of America International Limited, ABN AMRO Bank N.V. and First Chicago Limited.





"Related Business" means any business in which the Company was engaged on the Issue Date and any business related, ancillary or complementary to any business of the Company in which the Company was engaged on the Issue Date or any industrial manufacturing or related services business.

"Representative" means with respect to a Person any trustee, agent or representative (if any) for an issue of Senior Indebtedness of such Person.

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and dividends or distributions payable solely to the Company or a Restricted Subsidiary, and other than pro rata dividends or other distributions made by a

Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of such Person (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.



In determining the amount of any Restricted Payment made in property other than cash, such amount shall be the fair market value of such property at the time of such Restricted Payment, as determined in good faith by the Board of Directors of the Company.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Revolving Credit Facility" means the revolving credit facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances, in whole or in part, any such revolving credit facility.

"Sale/Leaseback Transaction" means an arrangement relating to property owned by the Company or a Restricted Subsidiary on the Issue Date or thereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means with respect to any Person any Indebtedness of such Person secured by a Lien.

"Senior Indebtedness" means with respect to any Person:

(1) Bank Indebtedness of or guaranteed by such Person, whether outstanding on the Issue Date or thereafter Incurred;

(2) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(3) accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to such Person whether or not a claim for post-filing interest is allowed or allowable in such proceeding) in respect of (A) such Bank Indebtedness; (B) indebtedness of such Person for money borrowed and (C) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable

unless, in the case of clauses (1) and (2), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such

obligations are subordinate in right of payment to the Securities; provided, however, that Senior Indebtedness shall not include:

(1) any obligation of such Person to any Subsidiary;

(2) any liability for Federal, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);

(4) any Indebtedness of such Person (and any accrued and unpaid interest in respect thereof) which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or

(5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of the Indenture.

"Senior Subordinated Indebtedness" means, with respect to a Person, the Securities (in the case of the Issuer), the Issuer's Guaranty of the Dollar Notes, the Dollar Notes, the Company Guaranty (in the case of the Company), a Subsidiary Guaranty (in the case of a Subsidiary Guarantor) and any other Indebtedness of such Person that specifically provides that such Indebtedness is to rank pari passu with the Securities or such Subsidiary Guaranty, as the case may be, in right of payment and is not subordinated by its terms in right of payment to any Indebtedness or other obligation of such Person which is not Senior Indebtedness of such Person.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding



on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Securities, the Issuer's Guaranty of the Dollar Notes, the Dollar Notes, the Company Guaranty or a Subsidiary Guaranty of such Person, as the case may be, pursuant to a written agreement to that effect.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by: (1) such Person; (2) such Person and one or more Subsidiaries of such Person; or (3) one or more Subsidiaries of such Person.

"Subsidiary Guarantor" means each direct or indirect Subsidiary (other than the Issuer), including Flowserve International Limited, of the Company that is a guarantor of Senior Indebtedness under the Credit Agreement and each direct or indirect domestic Restricted Subsidiary that is a guarantor of any other Indebtedness of the Company.

"Subsidiary Guaranty" means a Guarantee by a Subsidiary Guarantor of the Issuer's obligations with respect to the Securities.

"Temporary Cash Investments" means any of the following:

(1) any investment in direct obligations of the United States of America, European Government Obligations or direct obligations of any other European Union member state in which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof or obligations guaranteed by the United States of America or any other European Union member state in which the Company or any of its Restricted Subsidiaries has operations, or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $50,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally





recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker-dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;

(4) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's Investors Service, Inc. or "A-2" (or higher) according to Standard and Poor's Ratings Group; and

(5) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by Standard & Poor's Ratings Group or "A" by Moody's Investors Service, Inc.

"Term Loan Facility" means the term loan facility contained in the Credit Agreement and any other facility or financing arrangement that Refinances in whole or in part any such term loan facility.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Section Section 77aaa-77bbbb) as in effect on the date of this Indenture.

"Trustee" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor.

"Trust Officer" means when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Company may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either (A) the Subsidiary to be so designated has total assets of $1,000 or less or (B) if such Subsidiary has assets greater than $1,000, such designation would be permitted under Section 4.04.

The Board of Directors of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (A) the Company could Incur $1.00 of additional Indebtedness under Section 4.03(a) and (B) no Default shall have occurred and be continuing. Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Dollar Equivalent" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.



Except as described under Section 4.03, whenever it is necessary to determine whether the Issuer has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially incurred in such currency.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or one or more Wholly Owned Subsidiaries.



SECTION 1.02. Other Definitions.

| Term | Defined in Section |
|---|---|
| "Affiliate Transaction" | 4.07 |
| "Appendix" | 2.01 |
| "Bankruptcy Law" | 6.01 |
| "Blockage Notice" | 10.03 |
| "Change of Control Offer" | 4.09(b) |
| "covenant defeasance option" | 8.01(b) |
| "Custodian" | 6.01 |
| "Event of Default" | 6.01 |
| "Excess Cash Flow Offer" | 4.10 |
| "Excess Cash Flow Offer Amount" | 4.10 |
| "Excess Cash Flow Offer Period" | 4.10 |
| "Excess Cash Flow Purchase Date" | 4.10 |
| "Foreign Jurisdiction Merger" | 5.01 |
| "legal defeasance option" | 8.01(b) |
| "Legal Holiday" | 13.08 |
| "Obligations" | 11.01 |
| "Offer" | 4.06(b) |
| "Offer Amount" | 4.06(c)(2) |
| "Offer Period" | 4.06(c)(2) |
| "pay its Subsidiary Guaranty" | 14.03 |
| "pay the Securities" | 10.03 |
| "Paying Agent" | 2.03 |
| "Payment Blockage Period" | 10.03 |
| "Payment Default" | 10.03 |
| "Purchase Date" | 4.06(c)(1) |
| "Registrar" | 2.03 |
| "Successor Company" | 5.01 |

SECTION 1.03. Incorporation by Reference of Trust Indenture Act. This Indenture is subject to the mandatory provisions of the TIA which are incorporated by reference in and made a part of this Indenture. The following TIA terms have the following meanings:

"Commission" means the SEC;

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and



"obligor" on the indenture securities means the Issuer and any other obligor on the indenture securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) "including" means including without limitation;

(5) words in the singular include the plural and words in the plural include the singular;

(6) unsecured Indebtedness shall not be deemed to be

subordinate or junior to Secured Indebtedness merely by virtue of its nature as unsecured Indebtedness;

(7) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with GAAP;

(8) the principal amount of any Preferred Stock shall be (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock, whichever is greater; and

(9) all references to the date the Securities were originally issued shall refer to the Issue Date.

SECTION 1.05. Acts of Holders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Issuer. Such instrument



or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

The ownership of Securities shall be proved by the Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of Holder of any Security shall bind every future Holder of the same Security and the holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Security.

If the Issuer shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Issuer may, at its option, by or pursuant to a Board resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Issuer shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided, however, that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

## ARTICLE 2

## The Securities

SECTION 2.01. Form and Dating. Provisions relating to the Initial Securities, the Private Exchange Securities and the Exchange Securities are set forth in the

Rule 144A/Regulation S Appendix attached hereto (the "Appendix") which is hereby incorporated in and expressly made part of this Indenture. The Initial Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit 1 to the Appendix which is hereby incorporated in and expressly made a part of this Indenture. The Exchange Securities, the Private Exchange Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Issuer is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Issuer). Each Security shall be dated the date of its authentication. The terms of the Securities set forth in the Appendix and Exhibit A are part of the terms of this Indenture.

SECTION 2.02. Execution and Authentication. Two Officers shall sign the Securities for the Issuer by manual or facsimile signature.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee may appoint an authenticating agent reasonably acceptable to the Issuer to authenticate the Securities. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

SECTION 2.03. Registrar and Paying Agent. The Issuer shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Securities may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Issuer may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.





The Issuer shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Issuer shall notify the Trustee of the name and address of any such agent. If the Issuer fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Issuer or any Wholly Owned Subsidiary incorporated or organized within The United States of America may act as Paying Agent, Registrar, co-registrar or transfer agent.

The Issuer initially appoints The Bank of New York as Registrar and Paying Agent and Banque Internationale a Luxembourg as Luxembourg Paying Agent in connection with the Securities. The Issuer will appoint the Banque Internationale a Luxembourg as transfer agent in the event the Euro Notes are issued in definitive registered form.

So long as the Securities are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, the Issuer will maintain a paying agent and transfer agent in Luxembourg. If the Securities are listed on any other securities exchange, the Issuer will satisfy any requirement at such securities exchange as to paying agents. So long as the Securities are listed on the Luxembourg Stock Exchange, any change in the paying agent or transfer agent shall be notified to holders of Securities by publication of notices to the

holders of the Securities in accordance with the provisions of Section 15.02 of this Indenture.

SECTION 2.04. Paying Agent To Hold Money in Trust. On each due date of the principal and interest on any Security, the Issuer shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Issuer shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Trustee of any default by the Issuer in making any such payment. If the Issuer or a Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Issuer at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this



Section 2.04 the Paying Agent shall have no further liability for the money delivered to the Trustee.

SECTION 2.05. Securityholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Issuer shall furnish to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.06. Transfer and Exchange. The Securities shall be issued in registered form and shall be transferable only upon the surrender of a Security for registration of transfer. When a Security is presented to the Registrar or a co-registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of this Indenture and Section 8-401(a) of the Uniform Commercial Code are met. When Securities are presented to the Registrar or a co-registrar with a request to exchange them for an equal principal amount of Securities of other denominations, the Registrar shall make the exchange as requested if the same requirements are met.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any certificated Notes:

(1) for a period of 15 calendar days prior to any date fixed for the redemption of the Securities;

(2) for a period of 15 calendar days immediately prior to the date fixed for selection of Securities to be redeemed in part;

(3) for a period of 15 calendar days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with an offer made pursuant to Section 4.06 or 4.09.

Any such transfer will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

SECTION 2.07. Replacement Securities. If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims that the Security has been lost,



destroyed or wrongfully taken, the Issuer shall issue and the Trustee shall authenticate a replacement Security if the requirements of Section 8-405 of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Issuer, such

Holder shall furnish an indemnity bond sufficient in the judgment of the Issuer and the Trustee to protect the Issuer, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss which any of them may suffer if a Security is replaced. The Issuer and the Trustee may charge the Holder for their expenses in replacing a Security.

Every replacement Security is an additional obligation of the Issuer.

SECTION 2.08. Outstanding Securities. Securities outstanding at any time are all Securities authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.08 as not outstanding. A Security does not cease to be outstanding because the Issuer or an Affiliate of the Issuer holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Issuer receive proof satisfactory to them that the replaced Security is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Securities (or portions thereof) to be redeemed or maturing, as the case may be, and the Paying Agent is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture, then on and after that date such Securities (or portions thereof) cease to be outstanding and interest on them ceases to accrue; provided, however, that in determining whether the holders of the requisite principal amount of outstanding Securities are present at a meeting of holders of Securities for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment or modification hereunder, Securities held for the account of the Issuer, any of its subsidiaries or any of its affiliates shall be disregarded and deemed not to be outstanding, except that in determining whether the Trustee shall be protected in making such a determination or relying upon any such quorum, consent or vote, only Securities which a Trust Officer actually knows to be so owned shall be so disregarded.



SECTION 2.09. Temporary Securities. Until definitive Securities are ready for delivery, the Issuer may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Issuer considers appropriate for temporary Securities. Without unreasonable delay, the Issuer shall prepare and the Trustee shall authenticate definitive Securities and deliver them in exchange for temporary Securities.

SECTION 2.10. Cancellation. The Issuer at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and dispose of (subject to the record retention requirements of the Exchange Act) all Securities surrendered for registration of transfer, exchange, payment or cancellation in accordance with the Trustee's customary practices unless the Issuer directs the Trustee to deliver canceled Securities to the Issuer. The Issuer may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Trustee for cancellation.

SECTION 2.11. Defaulted Interest. If the Issuer defaults in a payment of interest on the Securities, the Issuer shall pay defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Issuer may pay the defaulted interest to the persons who are Securityholders on a subsequent special record date. The Issuer shall fix or cause to be fixed any such special record date and payment date to the reasonable satisfaction of the Trustee and shall promptly mail to each Securityholder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

SECTION 2.12. CUSIP, ISIN and Common Code Numbers. The Issuer in issuing the Securities may use "CUSIP", "ISIN and Common Code numbers (if then generally in use) and, if so, the Trustee shall use "CUSIP", "ISIN" and Common Code numbers in notices of redemption as a convenience to Holders;

provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

SECTION 2.13. Issuance of Additional Securities. The Issuer shall be entitled, subject to compliance with





Section 4.03, to issue Additional Securities under this Indenture which shall have identical terms as the Initial Securities issued on the Issue Date, other than with respect to the date of issuance and issue price. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Securities, the Issuer shall set forth in a resolution of the Board of Directors and an Officers' Certificate, a copy of each of which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of such Additional Securities to be authenticated and delivered pursuant to this Indenture;

(2) the issue price, the issue date and the CUSIP number of such Additional Securities; provided, however, that no Additional Securities may be issued at a price that would cause such Additional Securities to have "original issue discount" within the meaning of Section 1273 of the Code; and

(3) whether such Additional Securities shall be Transfer Restricted Securities and issued in the form of Initial Securities as set forth in the Appendix to this Indenture or shall be issued in the form of Exchange Securities as set forth in Exhibit A.

## ARTICLE 3

## Redemption

SECTION 3.01. Notices to Trustee. If the Issuer elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the redemption date, the principal amount of Securities to be redeemed and the paragraph of the Securities pursuant to which the redemption will occur.

The Issuer shall give each notice to the Trustee provided for in this Section 3.01 at least 60 days before the redemption date unless the Trustee consents to a shorter period. Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Issuer to the effect that such redemption will comply with the conditions herein.





SECTION 3.02. Selection of Securities To Be Redeemed. If fewer than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by a method that complies with applicable legal and securities exchange requirements, if any, and that the Trustee in its sole discretion shall deem to be fair and appropriate and in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. The Trustee shall make the selection from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than E.1,000. Securities and portions of them the Trustee selects shall be in principal amounts of E.1,000 or a whole multiple of E.1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Issuer promptly of the Securities or portions of Securities to be redeemed.

SECTION 3.03. Notice of Redemption. At least 30 days but not more than 60 days before a date for redemption of Securities, the Issuer shall mail a notice of redemption by first-class mail to each Holder of Securities to be redeemed at such Holder's registered address.

The notice shall identify the Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price;

(3) the name and address of the Paying Agent;

(4) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(5) if fewer than all the outstanding Securities are to be redeemed, the identification and principal amounts of the particular Securities to be redeemed;

(6) that, unless the Issuer defaults in making such redemption payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on Securities (or portion thereof) called for redemption ceases to accrue on and after the redemption date;

(7) the ISIN and Common Code numbers; and



(8) that no representation is made as to the correctness or accuracy of the CUSIP, ISIN or Common Code number, if any, listed in such notice or printed on the Securities.

At the Issuer's request, the Trustee shall give the notice of redemption in the Issuer's name and at the Issuer's expense. In such event, the Issuer shall provide the Trustee with the information required by this Section 3.03.

SECTION 3.04. Effect of Notice of Redemption. Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date and at the redemption price stated in the notice. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price stated in the notice, plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the related interest payment date). Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

SECTION 3.05. Deposit of Redemption Price. Prior to the redemption date, the Issuer shall deposit with the Paying Agent (or, if the Issuer or a Subsidiary is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which have been delivered by the Issuer to the Trustee for Cancellation.

SECTION 3.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Issuer shall execute and the Trustee shall authenticate for the Holder (at the Issuer's expense) a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

## ARTICLE 4

## Covenants

SECTION 4.01. Payment of Securities. The Issuer shall promptly pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the

Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest





then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture.

The Issuer shall pay interest on overdue principal at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 4.02. SEC Reports. Notwithstanding that the Issuer may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Issuer shall file with the SEC and provide the Trustee and Securityholders with such annual reports and such information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such information, documents and other reports to be so filed and provided at the times specified for the filing of such information, documents and reports under such Sections provided, however, that so long as the Company Guaranty is in effect and the rules and regulations of the SEC would permit the Issuer (if subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act) to satisfy such reporting requirements with the reports, information and other documents required to be filed by the Company, the provision of such reports, information and other documents by the Company hereunder shall be deemed to satisfy the obligations of the Issuer hereunder. In addition, the Issuer shall furnish to the Holder of the Securities and to prospective investors, upon the requests of such Holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as any Securities are not freely transferable under the Securities Act. The Issuer also shall comply with the other provisions of TIA Section 314(a).

SECTION 4.03. Limitation on Indebtedness. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Company shall be entitled to Incur Indebtedness, and its Restricted Subsidiaries shall be entitled to Incur Eligible Indebtedness, in each case if, on the date of such Incurrence and after giving effect thereto no Default has occurred and is continuing and, the Consolidated Coverage Ratio exceeds 2.0 to 1 if such Indebtedness is Incurred prior to September 1, 2003 or 2.25 to 1 if such Indebtedness is Incurred thereafter.





(b) Notwithstanding Section 4.03(a), the Company and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by the Company pursuant to any Revolving Credit Facility; provided, however, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed the greater of (A) $300.0 million and (B) the sum of (x) 50% of the book value of the inventory of the Company and its Restricted Subsidiaries and (y) 50% of the book value of the accounts receivable of the Company and its Restricted Subsidiaries (other than any accounts receivable constituting Receivables and Related Assets pledged, sold or otherwise transferred or encumbered in connection with a Receivables Program), less the sum of all principal payments made with respect to such Indebtedness pursuant to Section 4.06(a)(3)(A);

(2) Indebtedness Incurred by the Company pursuant to any Term Loan Facility; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (2) and then outstanding does not exceed $750.0 million less the aggregate sum of all principal payments actually made from time to time after the Issue Date with respect to such

Indebtedness (other than principal payments made from any permitted Refinancings thereof);

(3) Indebtedness Incurred by a Receivables Subsidiary pursuant to a Receivables Program; provided, however, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (3) and then outstanding does not exceed $400.0 million;

(4) Indebtedness owed to and held by the Company or a Wholly Owned Subsidiary; provided, however, that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Wholly Owned Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Company or the Issuer is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Securities and Dollar Notes, respectively;





(5) the Securities and the Dollar Notes (other than any Additional Securities and Additional Dollar Notes);

(6) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2), (3), (4) or (5) of this Section 4.03(b));

(7) Indebtedness of a Person Incurred and outstanding on or prior to the date on which such Person becomes a Restricted Subsidiary (including upon merger or consolidation with the Company or any Restricted Subsidiary) or assumed in connection with the purchase of assets from another Person (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or such Person or such assets were acquired by the Company); provided, however, that (A) with respect to any such Indebtedness Incurred prior to the first anniversary of the Issue Date, such Indebtedness is in an aggregate principal amount which, when taken together with all other Indebtedness Incurred pursuant to this clause (7), does not exceed $50.0 million or (B) on the date of such acquisition and after giving pro forma effect thereto, the Company would have been able to Incur at least $1.00 of additional Indebtedness pursuant to Section 4.03(a);

(8) Indebtedness of the Company or any of its Restricted Subsidiaries attributable to Capital Lease Obligations, or Incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including any Indebtedness assumed in connection with the acquisition of any such assets, in an aggregate principal amount which, when taken together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (8) and then outstanding, does not exceed $25.0 million (including any Refinancing Indebtedness with respect thereto);

(9) Indebtedness under industrial revenue bonds in an aggregate principal amount which, when taken together with all other Indebtedness of the Company or any of its Restricted Subsidiaries Incurred pursuant to this clause (9) and then outstanding, does not exceed $20.0 million;

(10) Indebtedness Incurred by Foreign Restricted Subsidiaries in an aggregate principal amount which,

when taken together with all other Indebtedness of Foreign Restricted Subsidiaries Incurred pursuant to this clause (10) and then outstanding, does not exceed $25.0 million;

(11) Indebtedness of the Company, whether secured or unsecured, consisting of Guarantees of Permitted Employee Stock Purchase Loans;

(12) Indebtedness or other obligations solely in respect of worker's compensation claims, self-insurance obligations and surety, appeal and performance bonds entered into in the ordinary course of business of the Company and its Restricted Subsidiaries;

(13) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to Section 4.03(a) or pursuant to clause (5), (6) or (7) of this Section 4.03(b) or this clause (13); provided, however, that to the extent such Refinancing Indebtedness directly or indirectly Refinances Indebtedness of a Subsidiary Incurred pursuant to clause (7), such Refinancing Indebtedness shall be Incurred only by such Subsidiary;

(14) Hedging Obligations under or with respect to Interest Rate Agreements, Currency Agreements or Commodity Agreements entered into in the ordinary course of business and not for the purpose of speculation;

(15) Indebtedness consisting of the Company Guaranty, the Issuer's Guaranty of the Dollar Notes and each Subsidiary Guaranty of a Subsidiary Guarantor;

(16) Indebtedness of the Company or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, provided that the Indebtedness is satisfied within five business days of Incurrence;

(17) Indebtedness of the Company or any Restricted Subsidiary consisting of indemnification, adjustment of purchase price or similar obligations, in each case incurred in connection with the disposition of any assets of the Company or any Restricted Subsidiary;

(18) Indebtedness consisting of the Guarantee by (i) the Company of any Indebtedness of a Restricted Subsidiary that was permitted to be Incurred by another





provision of this Section 4.03 and (ii) any Restricted Subsidiary of the Company of Indebtedness of the Company that was permitted to be Incurred by another provision of this Section 4.03; and

(19) Indebtedness of the Company in an aggregate principal amount which, when taken together with all other Indebtedness of the Company outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (18) of this Section 4.03(b) or Section 4.03(a) does not exceed $25.0 million.

(c) Notwithstanding the foregoing, none of the Company, the Issuer nor any Subsidiary Guarantor will Incur any Indebtedness pursuant to Section 4.03(b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Company, the Issuer or any Subsidiary Guarantor unless such Indebtedness shall be subordinated to the Company Guaranty, the Securities or the applicable Subsidiary Guaranty to at least the same extent as such Subordinated Obligations.

(d) For purposes of determining compliance with this Section 4.03, (1) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Issuer, in its sole discretion, will classify such item of Indebtedness at the time of Incurrence and only be required to include the amount and type of such Indebtedness in one of the above clauses and (2) the Issuer will be entitled to divide and classify

an item of Indebtedness in more than one of the types of Indebtedness described above.

(e) Notwithstanding Section 4.03(a) or 4.03(b), none of the Company, the Issuer nor any Subsidiary Guarantor will Incur (1) any Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness of such Person, unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness of such Person or (2) any Secured Indebtedness that is not Senior Indebtedness of such Person unless contemporaneously therewith such Person makes effective provision to secure the Securities equally and ratably with such Secured Indebtedness for so long as such Secured Indebtedness is secured by a Lien.

(f) For purposes of determining compliance with any U.S. dollar or Euro denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent or Euro





Equivalent, as the case may be, determined on the date of the Incurrence of such Indebtedness; provided, however, that if such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars or Euros, as the case may be, covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars or Euros will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the Euro Equivalent or U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (i) such U.S. Dollar Equivalent or Euro Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (ii) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent or Euro Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred.

SECTION 4.04. Limitation on Restricted Payments. (a) The Company shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Company is not entitled to Incur an additional $1.00 of Indebtedness under Section 4.03(a); or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (without duplication):

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which internal financial statements are available on or prior to the date of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus

(B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of, or cash capital contribution in respect of,





its Capital Stock (other than Disqualified Stock) subsequent

to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) and 100% of the fair market value (as determined in good faith by resolution of the Board of Directors) of property (other than cash) that would constitute Temporary Cash Investments or used in a Related Business and received by the Company or a Restricted Subsidiary subsequent to the Issue Date in exchange for or as a contribution in respect of its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than (i) an issuance to or a capital contribution by a Subsidiary of the Company or (ii) an issuance to or a capital contribution by an employee stock ownership plan or to a trust established by the Company or any of its subsidiaries for the benefit of their employees or (iii) property that was financed with loans from the Company or any Restricted Subsidiary); plus

(C) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investments, and proceeds representing the return of capital (to the extent not included in Consolidated Net Income), in each case received by the Company or any Restricted Subsidiary, and (y) to the extent such Person is an Unrestricted Subsidiary, the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that the foregoing sum shall not exceed, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person or Unrestricted Subsidiary.



(b) The provisions of Section 4.04(a) shall not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company in respect of its Capital Stock (other than Disqualified Stock); provided, however, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under Section 4.04(a)(3)(B) and under clause (4) below;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness which is permitted to be Incurred pursuant to Section 4.03; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Section 4.04; provided, however, that at the time of payment of such dividend, no other Default shall have occurred

and be continuing (or result therefrom); provided further, however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(4) so long as no Default has occurred and is continuing, the repurchase or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries (A) from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), (B) in the open market to the extent such shares are acquired to satisfy a current obligation to deliver shares in connection with the exercise of stock





options or similar rights, in each case pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such repurchases and other acquisitions shall not exceed in any calendar year the sum of (x) $5.0 million plus (y) the Net Cash Proceeds from the sale of Capital Stock to employees or directors of the Company (including pursuant to the exercise of stock options) that occur during such calendar year (to the extent such Net Cash Proceeds are not applied to the payment of a Restricted Payment pursuant to clause (1) above); provided further, however, that (i) such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments and (ii) the Net Cash Proceeds from such sales described in clause (y) shall be excluded from the calculation of amounts under Section 4.04(a)(3)(B); or

(5) Restricted Payments not exceeding $15.0 million in the aggregate; provided, however, that (A) at the time of such Restricted Payments, no Default shall have occurred and be continuing (or result therefrom) and (B) such Restricted Payments shall be included in the calculation of Restricted Payments.

SECTION 4.05. Limitation on Restrictions on Distributions from Restricted Subsidiaries. The Company shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company, (b) make any loans or advances to the Company or (c) transfer any of its property or assets to the Company, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date, including this Indenture, the Dollar Notes Indenture and the Credit Agreement as in effect on the Issue Date;

(2) any encumbrance or restriction with respect to a Receivables Subsidiary pursuant to a Receivables Program of such Receivables Subsidiary;

(3) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement





relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(4) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in Section 4.05 (1), (2), (3) or this clause (4) or contained in any amendment to an agreement referred to in Section 4.05 (1), (2), (3) or this clause (4); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment are, in the good faith judgment of the Board of Directors of the Company, no less favorable, taken as a whole, to the Securityholders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in such predecessor agreements;

(5) any such encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder;

(6) in the case of clause (c) above, restrictions contained in security agreements or mortgages securing Indebtedness, or under letters of credit or bank guarantees, of a Restricted Subsidiary to the extent such restrictions restrict the transfer of, or the grant of security over, the property subject to such security agreements, mortgages, letters of credit or bank guarantees;

(7) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(8) purchase money obligations (including Capital Lease Obligations) for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (c) above;



(9) provisions with respect to the disposition or distribution of assets or property in joint venture agreements and other similar agreements in the ordinary course of business; and

(10) any such encumbrance or restriction with respect to a Foreign Restricted Subsidiary pursuant to an agreement governing Indebtedness Incurred by such Foreign Restricted Subsidiary.

SECTION 4.06. Limitation on Sales of Assets and Subsidiary Stock. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless: (1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of all non-cash consideration), as determined in good faith by the Board of Directors, of the shares and assets subject to such Asset Disposition; (2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be) (A) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Company or Indebtedness (other than any Disqualified Stock) of a Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; (B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), to the extent the Company elects, to acquire Additional Assets within one year (or enter into a binding commitment therefor within such period and acquire such Additional Assets within 18 months) from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and (C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an offer to the holders of the Dollar Notes and the Securities (and to holders of other Senior Subordinated Indebtedness of the Company or the Issuer designated by the Company) to

purchase, on a pro rata basis, Dollar Notes and Securities (and such other Senior Subordinated Indebtedness of the Company or the Issuer) pursuant to the conditions of Section 4.06(b); provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (A) or (C) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the





related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased. Notwithstanding the foregoing provisions of this Section 4.06, (i) the Company and the Restricted Subsidiaries shall not be required to apply any Net Available Cash in accordance with this Section 4.06 except to the extent that the aggregate Net Available Cash from all Asset Dispositions which are not applied in accordance with this Section 4.06 exceeds $10.0 million , and (ii) to the extent any Asset Disposition constitutes the disposition of Consent Decree Assets, the Company shall be required to apply the Net Available Cash from such Asset Disposition pursuant to Section 4.06 (a)(3)(A) and the Company shall not be required to comply with Section 4.06 (a)(1). Pending application of Net Available Cash pursuant to this Section 4.06, such Net Available Cash shall be invested in Temporary Cash Investments or applied to temporarily reduce revolving credit indebtedness.

For the purposes of this Section 4.06, the following are deemed to be cash or cash equivalents: (1) the assumption of Indebtedness of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and (2) securities received by the Company or any Restricted Subsidiary from the transferee that are promptly converted by the Company or such Restricted Subsidiary into cash.

In addition, the Company may elect to deem Additional Assets (determined based on the fair market value of such assets) as cash and cash equivalents for purposes of this Section 4.06; provided, however, that such Additional Assets were acquired for fair market value as part of the transaction constituting an Asset Disposition; and provided further, however, that such Additional Assets will be deemed to have been acquired in accordance with Section 4.06(a)(3)(B).

(b) In the event of an Asset Disposition that requires the purchase of the Securities and Dollar Notes (and other Senior Subordinated Indebtedness of the Company or the Issuer) pursuant to Section 4.06(a)(3)(C) above, the Company will purchase, on a pro rata basis, Securities and Dollar Notes tendered pursuant to an offer (the "Offer") by the Company for the Securities (and such other Senior Subordinated Indebtedness of the Company and the Issuer, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness of the Company or the Issuer, as applicable, was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of





such other Senior Subordinated Indebtedness of the Company or the Issuer, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in Section 4.06(c). If the aggregate purchase price of the Securities and Dollar Notes (and other Senior Subordinated Indebtedness of the Company or the Issuer) tendered exceeds the Net Available Cash allotted to their purchase, the Company will select the Securities and Dollar Notes(and other Senior Subordinated Indebtedness of the Company or the Issuer) to be purchased on a pro rata basis but in round denominations, which in the case of the Securities will be denominations of E.1,000 principal amount or multiples thereof and in the case of the Dollar Notes will be $1,000 principal amount or multiples thereof. The Company shall not be required to make such an offer to purchase Securities and Dollar Notes (and other Senior Subordinated Indebtedness of the Company and the Issuer) pursuant to this Section 4.06 if the Net Available Cash available therefor is

less than $10.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c)(1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Offer, the Company shall deliver to the Trustee and send, by first-class mail to each Holder and Dollar Notes Holder, and, so long as the Securities are listed on the Luxembourg Stock Exchange, publish in a Luxembourg newspaper of general circulation, a written notice stating that the Holder and Dollar Notes Holder may elect to have his Securities and Dollar Notes purchased by the Company either in whole or in part (subject to prorating as described in Section 4.06(b) in the event the Offer is oversubscribed) in integral multiples of E.1,000 of principal amount and $1,000 principal amount, respectively, at the applicable purchase price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date of such notice (the "Purchase Date") and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders and Dollar Notes Holders to make an informed decision (which at a minimum will include (A) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report which may be incorporated by reference, other than Current Reports describing Asset Dispositions otherwise described in the offering materials (or corresponding successor reports), (B) a description of





material developments in the Company's business subsequent to the date of the latest of such Reports, and (C) if material, appropriate pro forma financial information) and all instructions and materials necessary to tender Securities and Dollar Notes pursuant to the Offer, together with the information contained in clause (3).

(2) Not later than the date upon which written notice of an Offer is delivered to the Trustee as provided below, the Company shall deliver to the Trustee an Officers' Certificate as to (A) the amount of the Offer (the "Offer Amount"), including information as to any other Senior Subordinated Indebtedness of the Company or the Issuer included in the Offer, (B) the allocation of the Net Available Cash from the Asset Dispositions pursuant to which such Offer is being made and (C) the compliance of such allocation with the provisions of Section 4.06(a) and (b). On such date, the Company shall also irrevocably deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust) in Temporary Cash Investments, maturing on the last day prior to the Purchase Date or on the Purchase Date if funds are immediately available by open of business, an amount equal to the Offer Amount to be held for payment in accordance with the provisions of this Section 4.06. If the Offer includes other Senior Subordinated Indebtedness, the deposit described in the preceding sentence may be made with any other paying agent pursuant to arrangements satisfactory to the Trustee. Upon the expiration of the period for which the Offer remains open (the "Offer Period"), the Company shall deliver to the Trustee for cancellation the Securities and Dollar Notes or portions thereof which have been properly tendered to and are to be accepted by the Company. The Trustee shall, on the Purchase Date, mail or deliver payment (or cause the delivery of payment) to each tendering Holder and the Dollar Notes Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Securities and Dollar Notes delivered by the Company to the Trustee is less than the Offer Amount applicable to the Securities and Dollar Notes, the Trustee shall deliver the excess to the Company immediately after the expiration of the Offer Period for application by the Company in any manner permitted by this Indenture.

(3) Holders and Dollar Notes Holders electing to have either a Security or a Dollar Note purchased shall be required to surrender the Security or a Dollar Note, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Purchase Date. Holders and Dollar Notes Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the Purchase Date, a telex, facsimile

transmission or letter setting forth the name of the Holder or Dollar Notes Holder, the principal amount of the Security or Dollar Note which was delivered for purchase by the Holder or Dollar Notes Holder and a statement that such Holder or Dollar Notes Holder is withdrawing his election to have such Security or Dollar Notes purchased. Holders or Dollar Notes Holders whose Securities or Dollar Notes are purchased only in part shall be issued new Securities or Dollar Notes equal in principal amount to the unpurchased portion of the Securities or Dollar Notes surrendered.

(4) At the time the Company delivers Securities or Dollar Notes to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Securities or Dollar Notes are to be accepted by the Company pursuant to and in accordance with the terms of this Section 4.06. A Security or Dollar Note shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder or Dollar Notes Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities or Dollar Notes pursuant to this Section 4.06. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 4.06, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.06 by virtue of its compliance with such securities laws or regulations.

SECTION 4.07. Limitation on Affiliate Transactions. (a) The Company shall not, and shall not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction") unless: (1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a Person who is not an Affiliate; (2) if such Affiliate Transaction involves an amount in excess of $10.0 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company disinterested with respect to such Affiliate Transactions have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate Transaction as evidenced by





a resolution of the Board of Directors of the Company; and (3) if such Affiliate Transaction involves an amount in excess of $20.0 million, the Board of Directors of the Company shall also have received a written opinion from (A) an investment banking firm of national prominence or (B) an accounting or appraisal firm nationally recognized in making such determinations, in each case that is not an Affiliate of the Company to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries.

(b) The provisions of Section 4.07(a) shall not prohibit: (1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to Section 4.04; (2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options, stock ownership plans or other similar incentive arrangements approved by the Board of Directors of the Company; (3) loans or advances to employees in the ordinary course of business in accordance with the past practices of the Company or its Restricted Subsidiaries, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time; (4) guarantees of Permitted Employee Stock Purchase Loans; (5) the payment of reasonable fees to directors of the Company and its Restricted Subsidiaries who are not employees of the Company or its Restricted Subsidiaries; (6) any transaction with a Restricted Subsidiary or joint venture or similar entity which would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary, joint venture or similar

entity; (7) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company; (8) any Receivables Program of the Company or a Restricted Subsidiary; (9) customary directors' and officers' indemnification arrangements; and (10) any agreement with the Company or any Restricted Subsidiary as in effect as of the Issue Date and any amendment or replacement thereto or any transaction contemplated thereby so long as such amendment or replacement agreement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement as in effect on the Issue Date.

SECTION 4.08. Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries. The Company (1) shall not, and shall not permit any Restricted Subsidiary to, sell, lease, transfer or otherwise dispose of (but excluding any pledge of such Capital Stock otherwise permitted by this Indenture) any Capital Stock of any Restricted Subsidiary to any Person (other than the Company



or a Wholly Owned Subsidiary), and (2) shall not permit any Restricted Subsidiary to issue any of its Capital Stock (other than, if necessary, shares of its Capital Stock constituting directors' or other legally required qualifying shares) to any Person (other than to the Company or a Wholly Owned Subsidiary), unless (A) immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any of its Subsidiaries own any Capital Stock of such Restricted Subsidiary; (B) immediately after giving effect to such issuance, sale or other disposition, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto would have been permitted to be made under Section 4.04 if made on the date of such issuance, sale or other disposition; or (C) the Company concurrently acquires sufficient shares of Capital Stock of such Restricted Subsidiary to at least maintain the same percentage ownership interest it had prior to the transaction.

Notwithstanding the foregoing, the issuance or sale of shares of Capital Stock of any Restricted Subsidiary of the Company will not violate the provisions of the immediately preceding sentence if such shares are issued or sold in connection with:

(i) the formation or capitalization of a Restricted Subsidiary, or

(ii) a single transaction or a series of substantially contemporaneous transactions whereby such Restricted Subsidiary becomes a Restricted Subsidiary of the Company by reason of the acquisition of securities or assets from another Person.

SECTION 4.09. Change of Control. (a) Upon the occurrence of a Change of Control, each Holder shall have the right to require that the Issuer purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date), in accordance with the terms contemplated in Section 4.09(b). In the event that at the time of such Change of Control the terms of the Senior Indebtedness of the Company restrict or prohibit the repurchase of Securities pursuant to this Section 4.09, then prior to the mailing of the notice to Holders provided for in Section 4.09(b) below but in any event within 30 days following any Change of Control, the Company shall (1) repay in full all such Senior Indebtedness or (ii) obtain the requisite consent under the agreements



governing such Senior Indebtedness to permit the repurchase of the Securities as provided for in Section 4.09(b).

(b) Within 30 days following any Change of Control, the Issuer shall mail a notice to each Holder with a copy to the Trustee (the "Change of Control Offer") and, so long as the Securities are listed on the Luxembourg

Stock Exchange, publish in a Luxembourg newspaper of general circulation, stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Issuer to purchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization, each after giving effect to such Change of Control);

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions determined by the Issuer, consistent with this Section 4.09, that a Holder must follow in order to have its Securities purchased.

(c) Holders electing to have a Security purchased will be required to surrender the Security, with an appropriate form duly completed, to the Issuer at the address specified in the notice at least three Business Days prior to the purchase date. Holders will be entitled to withdraw their election if the Trustee or the Issuer receives not later than one Business Day prior to the purchase date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Security which was delivered for purchase by the Holder and a statement that such Holder is withdrawing his election to have such Security purchased.

(d) On the purchase date, all Securities purchased by the Issuer under this Section 4.09 shall be delivered by the Issuer to the Trustee for cancellation, and the Issuer shall pay the purchase price plus accrued and unpaid interest, if any, to the Holders entitled thereto.



(e) Notwithstanding the foregoing provisions of this Section 4.09, the Issuer shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 4.09 applicable to a Change of Control Offer made by the Issuer and purchases all Securities validly tendered and not withdrawn under such Change of Control Offer.

(f) The Issuer shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities pursuant to this Section 4.09. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 4.09, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.09 by virtue of its compliance with such securities laws or regulations.

SECTION 4.10. Excess Cash Flow Repurchase Offer. (a) If the Company has Excess Cash Flow for any fiscal year (commencing with the fiscal year ending December 31, 2001), no later than the 120th day following the end of such fiscal year, the Company shall apply an amount equal to 50% of the Excess Cash Flow for such fiscal year: (1) first, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase (and permanently reduce the commitments thereunder) Senior Indebtedness of the Company with such percentage of Excess Cash Flow; (2) second, to the extent of the balance of such percentage of Excess Cash Flow after application in accordance with clause (1), to make an offer to the holders of the Securities and Dollar Notes (and to holders of other Senior Subordinated Indebtedness of the Company or the Issuer designated by the Company) to purchase, on a pro rata basis, Securities and Dollar Notes (and such other Senior Subordinated Indebtedness of the Company or the Issuer) pursuant to and subject to the conditions contained in this Section 4.10 and in Section 4.10 of the Dollar Notes Indenture (an "Excess Cash Flow Offer"); and (3) third, to the extent of

the balance of such percentage of Excess Cash Flow after application in accordance with clause (1) or (2) above, to any other application or use not prohibited by this Indenture; provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (1) above, the Company shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased; and provided, further, that no Excess Cash Flow





Offer shall be required to be made if the Company's Leverage Ratio is less than 3.0 to 1.0 on the last day of such fiscal year.

(b) In the event of an Excess Cash Flow Offer, the Company will be required to purchase, on a pro rata basis, Securities and Dollar Notes tendered pursuant to an offer by the Company for the Securities and Dollar notes (and other Senior Subordinated Indebtedness of the Company and the Issuer, as applicable) at a purchase price of 100% of their respective principal amount (or, in the event such other Senior Subordinated Indebtedness was issued with significant original issue discount, 100% of the accreted value thereof), without premium, plus accrued but unpaid interest (or, in respect of such Senior Subordinated Indebtedness, such lesser price, if any, as may be provided for by the terms of such Senior Subordinated Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in Section 4.10(c). If the aggregate purchase price of the Securities and Euro Notes (and other Senior Subordinated Indebtedness of the Company or the Issuer) tendered pursuant to such offer is less than the Excess Cash Flow allotted to their purchase, the Company will be entitled to apply the remaining Excess Cash Flow in accordance with clause (a)(3) above. The Company shall not be required to make an Excess Cash Flow Offer to purchase Securities and Dollar Notes (and other Senior Subordinated Indebtedness) pursuant to Section 4.10(a) if the Excess Cash Flow available therefor is less than $5.0 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Excess Cash Flow in any subsequent fiscal year).

(c)(1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Excess Cash Flow Offer, the Company shall deliver to the Trustee and send, by first-class mail to each Holder and Dollar Notes Holder, and, so long as the Securities are listed on the Luxembourg Stock Exchange, publish in a Luxembourg newspaper of general circulation, a written notice stating that the Holder and Dollar Notes Holder may elect to have his Securities and Dollar Notes purchased by the Company either in whole or in part (subject to prorating as described in Section 4.10(b) in the event the Excess Cash Flow Offer is oversubscribed) in integral multiples of E.1,000 of principal amount and $1,000 principal amount, respectively, at the applicable purchase price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date of such notice (the "Excess Cash Flow Purchase Date") and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders and Dollar





Notes Holders to make an informed decision (which at a minimum will include (A) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report which may be incorporated by reference (or corresponding successor reports), and (B) a description of material developments in the Company's business subsequent to the date of the latest of such Reports) and all instructions and materials necessary to tender Securities and Dollar Notes pursuant to the Excess Cash Flow Offer, together with the information contained in clause (3).

(2) Not later than the date upon which written notice of an Excess Cash Flow Offer is delivered to the Trustee as provided below, the Company shall deliver to the Trustee an Officers' Certificate as to (A) the

amount of the Excess Cash Flow Offer (the "Excess Cash Flow Offer Amount"), including information as to any other Senior Subordinated Indebtedness of the Company or the Issuer included in the Excess Cash Flow Offer, (B) the percentage of the Excess Cash Flow remaining after application in accordance with Section 4.10(a)(1) with respect to which such Excess Cash Flow Offer is being made and (C) the compliance of such allocation with the provisions of Section 4.10(a) and (b). On such date, the Company shall also irrevocably deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust) in Temporary Cash Investments, maturing on the last day prior to the Excess Cash Flow Purchase Date or on the Excess Cash Flow Purchase Date if funds are immediately available by open of business, an amount equal to the Excess Cash Flow Offer Amount to be held for payment in accordance with the provisions of this Section 4.10. If the Excess Cash Flow Offer includes other Senior Subordinated Indebtedness, the deposit described in the preceding sentence may be made with any other paying agent pursuant to arrangements satisfactory to the Trustee. Upon the expiration of the period for which the Excess Cash Flow Offer remains open (the "Excess Cash Flow Offer Period"), the Company shall deliver to the Trustee for cancellation the Securities and Dollar Notes or portions thereof which have been properly tendered to and are to be accepted by the Company. The Trustee shall, on the Purchase Date, mail or deliver payment (or cause the delivery of payment) to each tendering Holder and the Dollar Notes Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Securities and Dollar Notes delivered by the Company to the Trustee is less than the Excess Cash Flow Offer Amount applicable to the Securities and Dollar Notes, the Trustee shall deliver the excess to the Company immediately after the expiration of



the Excess Cash Flow Offer Period for application by the Company in any manner permitted by this Indenture.

(3) Holders and Dollar Note Holders electing to have either a Security or Dollar Note purchased shall be required to surrender the Security or Dollar Note, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Excess Cash Flow Purchase Date. Holders and Dollar Notes Holders shall be entitled to withdraw their election if the Trustee or the Company receives not later than one Business Day prior to the Excess Cash Flow Purchase Date, a telex, facsimile transmission or letter setting forth the name of the Holder or Dollar Notes Holder, the principal amount of the Security or Dollar Note which was delivered for purchase by the Holder or Dollar Notes Holder and a statement that such Holder or Dollar Notes Holder is withdrawing his election to have such Security or Dollar Notes purchased. Holders or Dollar Notes Holders whose Securities or Dollar Notes are purchased only in part shall be issued new Securities or Dollar Notes equal in principal amount to the unpurchased portion of the Securities or Dollar Notes surrendered.

(4) At the time the Company delivers Securities or Dollar Notes to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Securities or Dollar Notes are to be accepted by the Company pursuant to and in accordance with the terms of this Section 4.10. A Security or Dollar Note shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder or Dollar Notes Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Securities or Euro Notes pursuant to this Section 4.10. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 4.10, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.10 by virtue of its compliance with such securities laws or regulations.

SECTION 4.11. Future Guarantors. The Issuer and the Company shall cause each domestic Restricted Subsidiary that Guarantees any Indebtedness of the Company, the Issuer or any other Subsidiary Guarantor to, at the same time, execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee

payment of the Securities on the same terms and conditions as those set forth in Article 11 of this Indenture.

SECTION 4.12. Additional Amounts. All payments made under or with respect to the Securities shall be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (hereinafter "Taxes") imposed or levied by or on behalf of the government of The Netherlands or any political subdivision or any authority or agency therein or thereof having power to tax, or within any other jurisdiction in which the Issuer is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each a "Relevant Taxing Jurisdiction"), unless it is required to withhold or deduct Taxes by law or by the interpretation or administration thereof.

If the Issuer is so required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Securities, the Issuer shall pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by the Holders (including Additional Amounts) after such withholding or deduction will not be less than the amount the Holders would have received if such Taxes had not been withheld or deducted; provided, however, that the foregoing obligation to pay Additional Amounts does not apply to (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding outside of The Netherlands of such Security); or (2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge; nor shall the Issuer be required to pay Additional Amounts (a) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Security for payment within 30 days after the date on which such payment or such Security became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the Holder would have been entitled to Additional Amounts had the Security been presented on the last day of such 30 day period), (b) with respect to any payment of principal of (or premium, if any, on) or interest on such Security to any Holder who is a fiduciary or partnership or any person other than the sole beneficial



owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Security, (c) if the Securities are presented for payment in The Netherlands; provided, however, that at such time the Issuer has at least one paying agent in the European Union (other than in The Netherlands), or (d) if the Securities are presented for payment by, on behalf of, a Holder who would be able to avoid withholding or deduction by presenting any form or certificate and/or making a declaration of non-residence or similar claim for exemption but fails to do so.

Upon request, the Issuer shall provide the Trustee with official receipts or other documentation satisfactory to the Trustee evidencing the payment of the Taxes with respect to which Additional Amounts are paid.

Whenever in this Indenture there is mentioned, in any context: (1) the payment of principal; (2) purchase prices in connection with a purchase of Securities; (3) interest; or (4) any other amount payable on or with respect to any of the Securities, such reference shall be deemed to include payment of Additional Amounts provided for in this Section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer shall pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery, enforcement or registration of the Securities, this Indenture or any other document or instrument in relation thereof, or the receipt of any payments with respect to the Securities, excluding such taxes, charges or similar levies imposed by any jurisdiction outside of The Netherlands, the jurisdiction of incorporation of any successor of the Issuer or any jurisdiction in which a paying agent is located, and the Issuer will indemnify the Holders for any such taxes paid by such Holders.

The obligations described under this Section shall survive any termination, defeasance or discharge of this Indenture and shall apply mutatis mutandis to any jurisdiction in which any successor Person to the Issuer is organized or any political subdivision or taxing authority or agency thereof or therein.

SECTION 4.13. Compliance Certificate. The Company or the Issuer shall deliver to the Trustee within



120 days after the end of each fiscal year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company or the Issuer they would normally have knowledge of any Default and whether or not the signers know of any Default that occurred during such period. If they do, the certificate shall describe the Default, its status and what action the Company or the Issuer is taking or proposes to take with respect thereto. The Issuer also shall comply with TIA Section 314(a)(4).

SECTION 4.14. Further Instruments and Acts. The Company and the Subsidiary Guarantors will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper or as the Trustee may request to carry out more effectively the purpose of this Indenture.

SECTION 4.15. Ownership of the Issuer. The Issuer shall at all times be a Wholly Owned Subsidiary of the Company.

SECTION 4.16. Limitation on Business Activities of the Issuer. The Issuer will not, and the Company will not permit the Issuer to (a) incur any Indebtedness other than (1) the Securities, (2) the Issuer's Guaranty of the Dollar Notes, (3) the Issuer's guaranty of obligations in respect of the Credit Agreement and, (4) Indebtedness incurred in compliance with Section 4.03(b)(4) of this Indenture and, in the case of (1) and (2), any refinancings or replacements thereof permitted by the Section 4.03 or (b) engage in any business activities other than (1) the issuance of the Securities and the guaranties described in the preceding clause (a), (2) the making of Intercompany Loans and (3) activities incidental to the activities described in clauses (1) or (2) of this clause (b).

SECTION 4.17. Limitation on Use of Proceeds. The Issuer will use all the net proceeds of the issuance of the Securities to make Intercompany Loans and pay fees and expenses of the offering of the Securities, including customary organizational expenses of the Issuer.

## ARTICLE 5

## Successor Company

SECTION 5.01. When the Company or Issuer May Merge or Transfer Assets. Neither the Company nor the Issuer shall consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of



transactions, directly or indirectly, all or substantially all its assets to, any Person, unless, in the case of the Company:

(1) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia or under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Company's Guaranty of the Securities and this Indenture;

(2) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving pro forma effect to such transaction, the Successor Company would be able to Incur an additional $1.00 of Indebtedness pursuant to Section 4.03(a);

(4) immediately after giving pro forma effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of the Company immediately prior to such transaction;

(5) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture;

(6) in the event that the Successor Company in any merger is organized and existing under the laws of Bermuda, the British Virgin Islands, the Bahamas or Canada (any such merger, a "Foreign Jurisdiction Merger"), the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for Netherlands tax purposes as a result of such transaction and will be subject to Netherlands tax on the same amounts and at the same times as would have been the case if such transaction had not occurred; and





(7) in the event of a Foreign Jurisdiction Merger, the Company shall have delivered to the Trustee an Opinion of Counsel in the jurisdiction of the Successor Company to the effect that (A) any payment of interest or principal under or with respect to the Securities or the Guaranties will, after giving effect to such transaction, be exempt from any withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge of whatever nature imposed or levied by or on behalf of any jurisdiction from or through which payment is made or in which the payor is organized, resident or engaged in business for tax purposes and (B) no other taxes or income (including capital gains) will be payable by a Holder of Securities under the laws of any jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes in respect of the acquisition, ownership or disposition of the Securities, including the receipt of interest or principal thereon, provided that such Holder does not use or hold, and is not deemed to use or hold the Securities in carrying on a business in the jurisdiction where the Successor Company is or becomes organized, resident or engaged in business for tax purposes;

provided, however, that clause (3) and (4) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company or (B) the Company merging with an Affiliate of the Company solely for the purpose and with the sole effect of reincorporating the Company in another jurisdiction.

The Successor Company shall be the successor to the Company

and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, and the predecessor Company, except in the case of a lease, shall be released from the obligation to pay the principal of and interest on the Securities.

The Company shall not permit any Subsidiary Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless: (1) except in the case of a Subsidiary Guarantor that has been disposed of in its entirety to another Person (other than to the Company or an Affiliate of the Company), whether through a merger, consolidation or sale of Capital Stock or assets, the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the jurisdiction



under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person shall expressly assume, by a Guaranty Agreement, in a form satisfactory to the Trustee, all the obligations of such Subsidiary, if any, under its Subsidiary Guaranty of the Securities and Dollar Notes; (2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing; and (3) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such Guaranty Agreement, if any, complies with this Indenture.

## ARTICLE 6

## Defaults and Remedies

SECTION 6.01. Events of Default. An "Event of Default" occurs if:

(1) the Issuer defaults in any payment of interest or any Additional Amounts on any Security when the same becomes due and payable, whether or not such payment shall be prohibited by Article 10, and such default continues for a period of 30 days;

(2) the Company or the Issuer (i) defaults in the payment of the principal of any Security when the same becomes due and payable at its Stated Maturity, upon optional redemption, upon declaration or otherwise, whether or not such payment shall be prohibited by Article 10, or (ii) fails to redeem or purchase Securities when required pursuant to this Indenture or the Securities, whether or not such redemption or purchase shall be prohibited by Article 10;

(3) the Company or the Issuer fails to comply with Section 5.01;

(4) the Company or the Issuer, as applicable, fails to comply with Section 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.09, 4.11, 4.15, 4.16 or 4.17 (other than a failure to purchase Securities when required under Section 4.06 or 4.09) and such failure continues for 30 days after the notice specified below;



(5) the Company, the Issuer or any Subsidiary Guarantor fails to comply with any of its agreements in the Securities or this Indenture (other than those referred to in clause (1), (2), (3) or (4) above) and such failure continues for 60 days after the notice specified below;

(6) Indebtedness of any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary is not paid within any applicable

grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $10.0 million, or its foreign currency equivalent at the time;

(7) any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property; or

(D) makes a general assignment for the benefit of its creditors;

or takes any comparable action under any foreign laws relating to insolvency;

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary in an involuntary case;

(B) appoints a Custodian of any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary or for any substantial part of its property; or

(C) orders the winding up or liquidation of any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary;



or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days;

(9) any judgment or decree for the payment of money in excess of $10.0 million or its foreign currency equivalent at the time is entered against any Subsidiary Guarantor, the Company, the Issuer or any Significant Subsidiary, remains outstanding for a period of 60 days following the entry of such judgment or decree and is not discharged, waived or the execution thereof stayed within 10 days after the notice specified below; or

(10) the Company's Guaranty of the Securities or a Subsidiary Guaranty ceases to be in full force and effect (other than in accordance with the terms of this Indenture) or the Company or a Subsidiary Guarantor denies or disaffirms its obligations under its Guaranty.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors and (in the case of the Issuer) means Netherlands bankruptcy law, including without limitation the provisions thereof relating to surseance van betaling and faillissement. The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clauses (4), (5) or (9) is not an Event of

Default until the Trustee or the holders of at least 25% in principal amount of the outstanding Securities notify the Issuer of the Default and the Issuer or the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default".

The Issuer shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any Event of Default under clause (6) or (10) and any event which with the giving of notice or the lapse of time would become an Event of Default under clause (4), (5) or (9), its status and what action the Issuer is taking or proposes to take with respect thereto.





SECTION 6.02. Acceleration. If an Event of Default (other than an Event of Default specified in Section 6.01(7) or (8) with respect to the Company or the Issuer) occurs and is continuing, the Trustee by notice to the Issuer, or the Holders of at least 25% in principal amount of the Securities by notice to the Issuer and the Trustee, may declare the principal of and accrued but unpaid interest on all the Securities to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default specified in Section 6.01(7) or (8) with respect to the Company or the Issuer, occurs, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in principal amount of the Securities by notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of acceleration. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of Past Defaults. The Holders of a majority in principal amount of the Securities by notice to the Trustee may waive an existing Default and its consequences except (i) a Default in the payment of the principal of or interest on a Security, (ii) a Default arising from the failure to redeem or purchase any Security when required pursuant to this Indenture or (iii) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such





waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to

taking any action hereunder, the Trustee shall be entitled to indemnification or security satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 6.06. Limitation on Suits. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Securityholder may pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;

(2) the Holders of at least 25% in principal amount of the Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the Securities do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

SECTION 6.07. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal



of and interest on the Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.08. Collection Suit by Trustee. If an Event of Default specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount then due and owing (together with interest on any unpaid interest to the extent lawful) and the amounts provided for in Section 7.07.

SECTION 6.09. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Issuer, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.07.

SECTION 6.10. Priorities. If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.07;

SECOND: to holders of Senior Indebtedness of the Issuer and, if such money or property has been collected from the Company or a Subsidiary Guarantor, to holders of Senior Indebtedness of the Company or of such Subsidiary Guarantor, in each case to the extent required by

Article 10, 12 and 14;

THIRD: to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

FOURTH: to the Issuer.





The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10. At least 15 days before such record date, the Issuer shall mail to each Securityholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities.

SECTION 6.12. Waiver of Stay or Extension Laws. The Issuer (to the extent it may lawfully do so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 7

## Trustee

SECTION 7.01. Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and





(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct,

except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section 7.01;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section 7.01.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuer.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.



(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 7.01 and to the provisions of the TIA.

SECTION 7.02. Rights of Trustee. (a) The Trustee may conclusively rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document;

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel;

(c) The Trustee may act through agents or attorneys and shall not be responsible for the misconduct or negligence of any agent appointed with due care;

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute wilful misconduct or negligence;

(e) The Trustee may consult with counsel of its choice, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Securities shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel;

(f) Any request or direction of the Issuer mentioned herein shall be sufficiently evidenced by an Issuer request or Issuer order and any resolution of the Board of Directors may be sufficiently evidenced by a Board resolution;

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer has actual knowledge thereof or unless written



notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture;

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder; and

(j) The Trustee may request that the Issuer deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign on Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.03. Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Issuer's use of the proceeds from the Securities, and it shall not be responsible for any statement of the Issuer in the Indenture or in any document issued in connection with the sale of the Securities or in the Securities other than the Trustee's certificate of authentication.

SECTION 7.05. Notice of Defaults. If a Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Security (including payments pursuant to the mandatory redemption provisions of such Security, if any), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Securityholders.

SECTION 7.06. Reports by Trustee to Holders. As promptly as practicable after each May 15 beginning with



the May 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Securityholder a brief report dated as of May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange (if any) on which the Securities are listed. The Issuer agrees to notify promptly the Trustee whenever the Securities become listed on any stock exchange and of any delisting thereof.

SECTION 7.07. Compensation and Indemnity. The Issuer shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including

costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Issuer shall indemnify the Trustee and any predecessor Trustee and their agents against any and all loss, liability or expense (including attorneys' fees and taxes (other than taxes based upon, measured by or determined by the income of the Trustee)) incurred by it in connection with the administration of this trust and the performance of its duties hereunder, including the costs and expenses of defending itself against any claim (whether asserted by the Issuer or any Holder or any other Person). The Trustee shall notify the Issuer promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer shall defend the claim and the Trustee may have separate counsel and the Issuer shall pay the fees and expenses of such counsel. The Issuer need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own wilful misconduct, negligence or bad faith.

To secure the Issuer's payment obligations in this Section 7.07, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Securities.

The Issuer's payment obligations pursuant to this Section 7.07 shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default



specified in Section 6.01(7) or (8) with respect to the Issuer, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

SECTION 7.08. Replacement of Trustee. The Trustee may resign at any time by so notifying the Issuer. The Holders of a majority in principal amount of the Securities may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Issuer shall remove the Trustee if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Issuer or by the Holders of a majority in principal amount of the Securities and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Issuer shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Securities may petition any court of competent jurisdiction at the expense of the Issuer for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 7.08, the Issuer's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

SECTION 7.09. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 7.10. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Section 310(a). The Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 7.11. Preferential Collection of Claims Against Issuer. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

## ARTICLE 8

## Discharge of Indenture; Defeasance

SECTION 8.01. Discharge of Liability on Securities; Defeasance. (a) When (1) the Issuer delivers to the



Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.07) for cancellation or (2) all outstanding Securities have become due and payable, whether at maturity or on a redemption date as a result of the mailing of a notice of redemption pursuant to Article 3 hereof and the Issuer irrevocably deposits with the Trustee funds sufficient to pay at maturity or upon redemption all outstanding Securities, including interest thereon to maturity or such redemption date (other than Securities replaced pursuant to Section 2.07), and if in either case the Issuer pays all other sums payable hereunder by the Issuer, then this Indenture shall, subject to Section 8.01(c), cease to be of further effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Issuer accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Issuer.

(b) Subject to Sections 8.01(c) and 8.02, the Issuer at any time may terminate (1) all its and the Company's obligations under the Securities and this Indenture ("legal defeasance option") or (2) the Company's and the Issuer's obligations under Sections 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.09, 4.10, 4.11, 4.15, 4.16 and 4.17 and the operation of Sections 6.01(4), 6.01(6), 6.01(7), 6.01(8) and 6.01(9) (but, in the case of Sections 6.01(7) and (8), with respect only to Significant Subsidiaries) and the limitations contained in Sections 5.01(3) and 5.01(4) ("covenant defeasance option"). The Issuer may exercise its legal defeasance option notwithstanding

its prior exercise of its covenant defeasance option.

If the Issuer exercises its legal defeasance option, payment of the Securities may not be accelerated because of an Event of Default with respect thereto. If the Issuer exercises its covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default specified in Sections 6.01(4), 6.01(6), 6.01(7), 6.01(8) and 6.01(9) (but, in the case of Sections 6.01(7) and (8), with respect only to Significant Subsidiaries) or because of the failure of the Company to comply with Sections 5.01(3) and 5.01(4). If the Issuer exercises its legal defeasance option or its covenant defeasance option, each Subsidiary Guarantor, if any, shall be released from all its obligations with respect to its Subsidiary Guaranty and the Company shall be released from all its obligations with respect to its Guaranty.

Upon satisfaction of the conditions set forth herein and upon request of the Issuer, the Trustee shall acknowledge in writing the discharge of those obligations that the Issuer terminates.





(c) Notwithstanding clauses (a) and (b) above, the Issuer's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.08, 7.07 and 7.08 and in this Article 8 shall survive until the Securities have been paid in full. Thereafter, the Issuer's obligations in Sections 7.07, 8.04 and 8.05 shall survive.

SECTION 8.02. Conditions to Defeasance. The Issuer may exercise its legal defeasance option or its covenant defeasance option only if:

(1) the Issuer irrevocably deposits in trust with the Trustee money or U.S. Government Obligations or European Government Obligations for the payment of principal of and interest on the Securities to maturity or redemption, as the case may be;

(2) the Issuer delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations or European Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Securities to maturity or redemption, as the case may be;

(3) 123 days pass after the deposit is made and during the 123-day period no Default specified in Sections 6.01(7) or (8) with respect to the Issuer occurs which is continuing at the end of the period;

(4) the deposit does not constitute a default under any other agreement binding on the Issuer and is not prohibited by Article 10;

(5) the Issuer delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

(6) in the case of the legal defeasance option, the Issuer shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling, or (B) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Securityholders will not recognize income, gain or loss for Federal income





tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the

same times as would have been the case if such defeasance had not occurred;

(7) in the case of the covenant defeasance option, the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(8) the Issuer delivers to the Trustee an Opinion of Counsel in The Netherlands to the effect that (A) Holders will not recognize income, gain or loss for Dutch federal or provincial income tax purposes as a result of such deposit and defeasance, and will be subject to income tax of such jurisdiction on the same amounts, and in the same manner and at the same times as would have been the case if such deposit and defeasance, had not occurred, and (B) payments from the defeasance trust will be free and exempt from any and all withholding and other income taxes of whatever nature of The Netherlands or any province thereof or any political subdivision thereof or therein having the power to tax; and

(9) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Securities as contemplated by this Article 8 have been complied with.

Before or after a deposit, the Issuer may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date in accordance with Article 3.

For purposes of this Section, money denominated in currency other than Euro and U.S. Government Obligations deposited pursuant to this section shall be subject in their entirety (including principal, interest and premium, if any) to a customary Currency Agreement that is of a duration not less than the defeasance period that fixes the exchange rate of such money or U.S. Government Obligations into Euro for the benefit of the Trustee. The amount of such money and U.S. Government Obligations expressed in Euro will be as provided in such Currency Agreement. The counterparty to such Currency Agreement shall be a commercial bank organized in the United States having capital and surplus in excess of $500.0 million or a commercial bank organized under the laws



of any country that is a member of the OECD having total assets in excess of $500.0 million (or its foreign currency equivalent at the time). Such counterparty may obtain from the Issuer an Opinion of Counsel to the effect that such currency agreement has been duly authorized and entered into by the Issuer.

SECTION 8.03. Application of Trust Money. The Trustee shall hold in trust money, European Government Obligations or U.S. Government Obligations deposited with it pursuant to this Article 8. It shall apply the deposited money and the money from European Government Obligations or U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Securities. Money and securities so held in trust are not subject to Article 10.

SECTION 8.04. Repayment to Issuer. The Trustee and the Paying Agent shall promptly turn over to the Issuer upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Issuer upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Securityholders entitled to the money must look to the Issuer for payment as general creditors.

SECTION 8.05. Indemnity for Government Obligations. The Issuer shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited European Government Obligations or U.S.

Government Obligations or the principal and interest received on such European Government or U.S. Government Obligations.

SECTION 8.06. Reinstatement. If the Trustee or Paying Agent is unable to apply any money, European Government Obligations or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's and the Issuer's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or Paying Agent is permitted to apply all such money, European Government Obligations or U.S. Government Obligations in accordance with this Article 8; provided, however, that, if the Issuer has made any payment of interest on or principal of any Securities because of the reinstatement of its obligations, the Issuer shall be





subrogated to the rights of the Holders of such Securities to receive such payment from the money, European Government Obligations or U.S. Government Obligations held by the Trustee or Paying Agent.

ARTICLE 9

Amendments

SECTION 9.01. Without Consent of Holders. The Issuer, the Company, the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to or consent of any Securityholder:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 5;

(3) to provide for uncertificated Securities in addition to or in place of certificated Securities; provided, however, that the uncertificated Securities are issued in registered form for purposes of Section 163(f) of the Code or in a manner such that the uncertificated Securities are described in Section 163(f)(2)(B) of the Code;

(4) to make any change in Article 10 that would limit or terminate the benefits available to any holder of Senior Indebtedness of the Company or the Issuer or of a Subsidiary Guarantor (or Representatives therefor) under Article 10, 12 or 14;

(5) to add guarantees with respect to the Securities, including any Subsidiary Guaranties, or to secure the Securities;

(6) to add to the covenants of the Issuer, the Company or a Subsidiary Guarantor for the benefit of the Holders or to surrender any right or power herein conferred upon the Issuer, the Company or a Subsidiary Guarantor;

(7) to comply with any requirements of the SEC in connection with qualifying, or maintaining the qualification of, this Indenture under the TIA; or

(8) to make any change that does not adversely affect the rights of any Securityholder.

An amendment under this Section 9.01 may not make any change that adversely affects the rights under





Article 10, 12 or 14 of any holder of Senior Indebtedness of the Issuer, the Company or of a Subsidiary Guarantor then outstanding unless the holders of such Senior Indebtedness (or any group or Representative thereof authorized to give a consent) consent to such change.

After an amendment under this Section 9.01 becomes effective, the Issuer shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.01.

SECTION 9.02. With Consent of Holders. The Issuer, the Company the Subsidiary Guarantors and the Trustee may amend this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of at least a majority in principal amount of the Securities then outstanding (including consents obtained in connection with a tender offer or exchange for the Securities). However, without the consent of each Securityholder affected thereby, an amendment may not:

(1) reduce the amount of Securities whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Security;

(3) reduce the principal amount of or extend the Stated Maturity of any Security;

(4) reduce the amount payable upon the redemption of any Security or change the time at which any Security may be redeemed in accordance with Article 3;

(5) make any Security payable in money other than that stated in the Security;

(6) make any changes in the ranking or priority of any Security that would adversely affect the Securityholders;

(7) make any change in Section 6.04 or 6.07 or the second sentence of this Section 9.02;

(8) make any change in the Company Guaranty or any Subsidiary Guaranty that would adversely affect the Securityholders; or

(9) make any change in Section 4.12 that adversely affects the rights of any Securityholder or amend terms of the Securities or this Indenture in a way that would





result in the loss of an exemption from any of the Taxes described thereunder.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

An amendment under this Section 9.02 may not make any change that adversely affects the rights under Article 10, 12 or 14 of any holder of Senior Indebtedness of the Issuer, the Company or of a Subsidiary Guarantor then outstanding unless the holders of such Senior Indebtedness (or any group or Representative thereof authorized to give a consent) consent to such change.

After an amendment under this Section 9.02 becomes effective, the Issuer shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.02.

SECTION 9.03. Compliance with Trust Indenture Act. Every amendment to this Indenture or the Securities shall comply with the TIA as then in effect.

SECTION 9.04. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Security shall bind the Holder and every subsequent Holder of that Security or portion of the Security

that evidences the same debt as the consenting Holder's Security, even if notation of the consent or waiver is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder. An amendment or waiver becomes effective upon the execution of such amendment or waiver by the Trustee.

The Issuer may, but shall not be obligated to, fix a record date for the purpose of determining the Securityholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Securityholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders



after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 9.05. Notation on or Exchange of Securities. If an amendment changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security regarding the changed terms and return it to the Holder. Alternatively, if the Issuer or the Trustee so determines, the Issuer in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment.

SECTION 9.06. Trustee To Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

SECTION 9.07. Payment for Consent. Neither the Issuer nor any Affiliate of the Issuer shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Securities unless such consideration is offered to be paid to all Holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

## ARTICLE 10

## Subordination

SECTION 10.01. Agreement To Subordinate. The Issuer agrees, and each Securityholder by accepting a Security agrees, that the Indebtedness evidenced by the Securities is subordinated in right of payment, to the extent and in the manner provided in this Article 10, to the prior payment of all Senior Indebtedness of the Issuer and that the subordination is for the benefit of and enforceable by the holders of such Senior Indebtedness. The Securities shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of the Issuer and only



Indebtedness of the Issuer which is Senior Indebtedness of the Issuer shall rank senior to the Securities in accordance with the provisions set forth herein. All

provisions of this Article 10 shall be subject to Section 10.12.

SECTION 10.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of the Issuer to creditors upon a total or partial liquidation or a total or partial dissolution of the Issuer or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Issuer or its property:

(1) holders of Senior Indebtedness of the Issuer shall be entitled to receive payment in full in cash of such Senior Indebtedness before Securityholders shall be entitled to receive any payment of principal of or interest on the Securities; and

(2) until such Senior Indebtedness is paid in full in cash, any payment or distribution to which Securityholders would be entitled but for this Article 10 shall be made to holders of such Senior Indebtedness as their interests may appear, except that Securityholders may receive shares of Capital Stock and any debt securities that are subordinated to such Senior Indebtedness to at least the same extent as the Securities.

SECTION 10.03. Default on Senior Indebtedness of the Issuer. The Issuer shall not pay the principal of or interest on the Securities or make any deposit pursuant to Section 8.01 and may not purchase, redeem or otherwise retire any Securities (collectively, "pay the Securities") if either of the following (a "Payment Default") occurs (1) any Designated Senior Indebtedness of the Issuer is not paid in cash when due; or (2) any other default on Designated Senior Indebtedness of the Issuer occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash; provided, however, that the Issuer shall be entitled to pay the Securities without regard to the foregoing if the Issuer and the Trustee receive written notice approving such payment from the Representative of all Designated Senior Indebtedness with respect to which a Payment Default has occurred and is continuing. During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of the Issuer pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of



any applicable grace periods, the Issuer shall not pay the Securities for a period (a "Payment Blockage Period") commencing upon the receipt by the Trustee of (with a copy to the Issuer) written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period shall end earlier if such Payment Blockage Period is terminated (1) by written notice to the Trustee and the Issuer from the Person or Persons who gave such Blockage Notice; (2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing; or (3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash. Notwithstanding the provisions described in the immediately preceding two sentences (but subject to the provisions contained in the first sentence of this Section 10.03), unless the holders of such Designated Senior Indebtedness or the Representative of such Designated Senior Indebtedness shall have accelerated the maturity of such Designated Senior Indebtedness, the Issuer shall be entitled to resume payments on the Securities after termination of such Payment Blockage Period. The Securities shall not be subject to more than one Payment Blockage Period in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of the Issuer during such period; provided, however, that if any Blockage Notice within such 360-day period is given by or on behalf of any holders of Designated Senior Indebtedness of the Issuer (other than the Bank Indebtedness), the Representative of the Bank Indebtedness shall be entitled to give another Blockage Notice within such period; provided further, however, that in no event shall the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any 360-consecutive-day period, and there must be 181 days during any 360-consecutive day period during which no Payment Blockage Period is in effect. For purposes of this Section 10.03, no default or event of default

which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of the Issuer initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 10.04. Acceleration of Payment of Securities. If payment of the Securities is accelerated because of an Event of Default, the Issuer or the Trustee



shall promptly notify the holders of the Designated Senior Indebtedness of the Issuer (or their Representatives) of the acceleration. If any Designated Senior Indebtedness of the Issuer is outstanding, the Issuer shall not pay the Securities until five Business Days after the Representatives of all the issues of Designated Senior Indebtedness of the Issuer receive notice of such acceleration and, thereafter, shall be entitled to pay the Securities only if this Article 10 otherwise permits payment at that time.

SECTION 10.05. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 10 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness of the Issuer and pay it over to them as their interests may appear.

SECTION 10.06. Subrogation. After all Senior Indebtedness of the Issuer is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of such Senior Indebtedness to receive distributions applicable to such Senior Indebtedness. A distribution made under this Article 10 to holders of such Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the Issuer and Securityholders, a payment by the Issuer on such Senior Indebtedness.

SECTION 10.07. Relative Rights. This Article 10 defines the relative rights of Securityholders and holders of Senior Indebtedness of the Issuer. Nothing in this Indenture shall:

(1) impair, as between the Issuer and Securityholders, the obligation of the Issuer, which is absolute and unconditional, to pay principal of and interest on the Securities in accordance with their terms; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a Default, subject to the rights of holders of Senior Indebtedness of the Issuer to receive distributions otherwise payable to Securityholders.

SECTION 10.08. Subordination May Not Be Impaired by Issuer. No right of any holder of Senior Indebtedness of the Issuer to enforce the subordination of the Indebtedness evidenced by the Securities shall be impaired by any act or failure to act by the Issuer or by its failure to comply with this Indenture.



SECTION 10.09. Rights of Trustee and Paying Agent. Notwithstanding Section 10.03, the Trustee or Paying Agent shall continue to make payments on the Securities and shall not be charged with knowledge of the existence of facts that under this Article 10 would prohibit the making of any such payments unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives notice satisfactory to it that such payments are prohibited by this Article 10. The Issuer, the Registrar or co-registrar, the Paying Agent, a Representative or a holder of Senior Indebtedness of the Issuer shall be entitled to give the notice; provided, however, that, if an issue of Senior Indebtedness of the Issuer has a Representative, only the Representative shall be entitled to give the notice.

The Trustee in its individual or any other capacity shall be entitled to hold Senior Indebtedness of the Issuer with the same rights it would have if it were not Trustee. The Registrar and co-registrar and the Paying Agent shall be entitled to do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 10 with respect to any Senior Indebtedness of the Issuer which may at any time be held by it, to the same extent as any other holder of such Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 10 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

SECTION 10.10. Distribution or Notice to Representative. Whenever any Person is to make a distribution or give a notice to holders of Senior Indebtedness of the Issuer, such Person shall be entitled to make such distribution or give such notice to their Representative (if any).

SECTION 10.11. Article 10 Not To Prevent Events of Default or Limit Right To Accelerate. The failure to make a payment pursuant to the Securities by reason of any provision in this Article 10 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 10 shall have any effect on the right of the Securityholders or the Trustee to accelerate the maturity of the Securities.

SECTION 10.12. Trust Moneys Not Subordinated. Notwithstanding anything contained herein to the contrary, payments from money or the proceeds of U.S. Government Obligations or European Government Obligations held in trust under Article 8 by the Trustee for the payment of principal of and interest on the Securities shall not be subordinated to the prior payment of any Senior Indebtedness of the



Issuer or subject to the restrictions set forth in this Article 10, and none of the Securityholders shall be obligated to pay over any such amount to the Issuer or any holder of Senior Indebtedness of the Issuer or any other creditor of the Issuer.

SECTION 10.13. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 10, the Trustee and the Securityholders shall be entitled to rely (1) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 10.02 are pending, (2) upon a certificate of the liquidating trustee or agent or other Person making such payment or distribution to the Trustee or to the Securityholders or (3) upon the Representatives of Senior Indebtedness of the Issuer for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of such Senior Indebtedness and other Indebtedness of the Issuer, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 10. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any Person as a holder of Senior Indebtedness of the Issuer to participate in any payment or distribution pursuant to this Article 10, the Trustee shall be entitled to request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such Person under this Article 10, and, if such evidence is not furnished, the Trustee shall be entitled to defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 10.

SECTION 10.14. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination between the Securityholders and the holders of Senior Indebtedness of the Issuer as provided in this Article 10 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 10.15. Trustee Not Fiduciary for Holders of Senior Indebtedness of the Issuer. The Trustee shall not be deemed to owe any fiduciary

duty to the holders of Senior Indebtedness of the Issuer and shall not be liable to any such holders if it shall mistakenly pay over or distribute



to Securityholders or the Issuer or any other Person, money or assets to which any holders of Senior Indebtedness of the Issuer shall be entitled by virtue of this Article 10 or otherwise.

SECTION 10.16. Reliance by Holders of Senior Indebtedness of the Issuer on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness of the Issuer, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of such Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.

## ARTICLE 11

## The Company Guaranty

SECTION 11.01. The Company Guaranty. The Company hereby unconditionally and irrevocably guarantees to each Holder and to the Trustee and its successors and assigns (a) the full and punctual payment of principal of and interest on the Securities when due, whether at maturity, by acceleration, by redemption or otherwise, and all other monetary obligations of the Issuer under this Indenture and the Securities and (b) the full and punctual performance within applicable grace periods of all other obligations of the Issuer under this Indenture and the Securities (all the foregoing being for purposes of this Article 11 collectively called the "Obligations"). The Company further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from the Company and that the Company will remain bound under this Article 11 notwithstanding any extension or renewal of any Obligation.

The Company waives presentation to, demand of, payment from and protest to the Issuer of any of the Obligations and also waives notice of protest for nonpayment. The Company waives notice of any default under the Securities or the Obligations. The obligations of the Company hereunder shall not be affected by (a) the failure of any Holder or the Trustee to assert any claim or demand or to enforce any right or remedy against the Issuer or any other Person under this Indenture, the Securities or any other agreement or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions of this



Indenture, the Securities or any other agreement; (d) the release of any security held by any Holder or the Trustee for the Obligations or any of them; or (e) the failure of any Holder or the Trustee to exercise any right or remedy against any other guarantor of the Obligations.

The Company further agrees that its Guaranty herein constitutes a guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder or the Trustee to any security held for payment of the Obligations.

The Company Guaranty is, to the extent and in the manner set forth in Article 12, subordinated and subject in right of payment to the prior payment in full of the principal of and premium, if any, and interest on all Senior Indebtedness of the Company and such Guaranty is made subject to such provisions of this Indenture.

Except as expressly set forth in Sections 8.01(a) and (b) and 8.02, the obligations of the Company hereunder shall not be subject to any

reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of the Company herein shall not be discharged or impaired or otherwise affected by the failure of any Holder or the Trustee to assert any claim or demand or to enforce any remedy under this Indenture, the Securities or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Company or would otherwise operate as a discharge of the Company as a matter of law or equity.

The Company further agrees that its Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation is rescinded or must otherwise be restored by any Holder or the Trustee upon the bankruptcy or reorganization of the Issuer or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder or the Trustee has at law or in equity against the Company by



virtue hereof, upon the failure of the Issuer to pay the principal of or interest on any Obligation when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, or to perform or comply with any other Obligation, the Company hereby promises to and shall, upon receipt of written demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders or the Trustee an amount equal to the sum of (1) the unpaid amount of such Obligations, (2) accrued and unpaid interest on such Obligations (but only to the extent not prohibited by law) and (3) all other monetary Obligations of the Issuer to the Holders and the Trustee.

The Company agrees that it shall not be entitled to any right of subrogation in respect of any Obligations guaranteed hereby until payment in full of all Obligations and all obligations to which the Obligations are subordinated as provided in Article 12. The Company further agrees that, as between it, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Obligations Guaranteed hereby may be accelerated as provided in Article 6 for the purposes of the Company's Guaranty herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Obligations as provided in Article 6, such Obligations (whether or not due and payable) shall forthwith become due and payable by the Company for the purposes of this Section.

The Company also agrees to pay any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Section.

SECTION 11.02. Successors and Assigns. This Article 11 shall be binding upon the Company and its successors and assigns and shall enure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges conferred upon that party in this Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.

SECTION 11.03. No Waiver. Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Article 11 shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders

herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Article 11 at law, in equity, by statute or otherwise.

SECTION 11.04. Modification. No modification, amendment or waiver of any provision of this Article 11, nor the consent to any departure by the Company therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in the same, similar or other circumstances.

ARTICLE 12

Subordination of the Company Guaranty

SECTION 12.01. Agreement To Subordinate. The Company agrees, and each Securityholder by accepting a Security agrees, that the Indebtedness evidenced by the Company's Guaranty is subordinated in right of payment, to the extent and in the manner provided in this Article 12, to the prior payment of all Senior Indebtedness of the Company and that the subordination is for the benefit of and enforceable by the holders of such Senior Indebtedness. The Obligations of the Company shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of the Company and only Senior Indebtedness of the Company (including the Company's Guaranty of Senior Indebtedness of the Issuer) shall rank senior to the Obligations of the Company in accordance with the provisions set forth herein.

SECTION 12.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of the Company to creditors upon a total or partial liquidation or a total or partial dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property:

(1) holders of Senior Indebtedness of the Company shall be entitled to receive payment in full of such Senior Indebtedness before Securityholders shall be entitled to receive any payment pursuant to the Guaranty of the Company; and

(2) until the Senior Indebtedness of the Company is paid in full in cash, any payment or distribution to which Securityholders would be entitled but for this Article 12 shall be made to holders of such Senior





Indebtedness as their interests may appear, except that Securityholders may receive shares of Capital Stock and any debt securities of the Company that are subordinated to such Senior Indebtedness to at least the same extent as Guaranty.

SECTION 12.03. Default on Senior Indebtedness of the Company. The Company shall make its Guaranty or purchase, redeem or otherwise retire or defease any Securities or other Obligations (collectively, "pay its Guaranty") if either of the following (a "Payment Default") occurs (1) any Designated Senior Indebtedness of the Company is not paid when due; or (2) any other default on Designated Senior Indebtedness of the Company occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms; unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full; provided, however, that the Company shall be entitled to pay its Guaranty without regard to the foregoing if the Company and the Trustee receive written notice approving such payment from the Representative of any Designated Senior Indebtedness with respect to which the Payment Default has occurred and is continuing. During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of the Company pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, the Company shall not pay its Guaranty for a period (a "Payment Blockage Period") commencing

upon the receipt by the Trustee of (with a copy to the Company) written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period shall end earlier if such Payment Blockage Period is terminated (1) by written notice to the Trustee and the Company from the Person or Persons who gave such Blockage Notice; (2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing; or (3) because such Designated Senior Indebtedness has been discharged or repaid in full. Notwithstanding the provisions described in the immediately preceding two sentences (but subject to the provisions contained in the first sentence of this Section), unless the holders of such Designated Senior Indebtedness giving such Payment Notice or the Representative of such Designated Senior Indebtedness shall have accelerated the maturity of such Designated Senior Indebtedness, the Company shall be entitled to resume payments pursuant to its Guaranty after termination of such Payment Blockage Period. The Company shall not be subject





to more than one Blockage Period in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of the Company during such period; provided, however, that if any Blockage Notice within such 360-day period is given by or on behalf of any holders of Designated Senior Indebtedness of the Issuer (other than the Bank Indebtedness), the Representative of the Bank Indebtedness shall be entitled to give another Blockage Notice within such period; provided further, however, that in no event shall the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any 360-consecutive-day period, and there must be 181 days during any 360-consecutive day period during which no Payment Blockage Period is in effect. For purposes of this Section, no default or event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of the Company initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 12.04. Demand for Payment. If a demand for payment is made on the Company pursuant to Article 11, the Trustee shall promptly notify the holders of the Designated Senior Indebtedness of the Company (or their Representatives) of such demand.

SECTION 12.05. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 12 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness of the Company and pay it over to it or its Representatives as their interests may appear.

SECTION 12.06. Subrogation. After all Senior Indebtedness of the Company is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of such Senior Indebtedness to receive distributions applicable to Senior Indebtedness of the Company. A distribution made under this Article 12 to holders of such Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the Company and Securityholders, a payment by the Company on such Senior Indebtedness.





SECTION 12.07. Relative Rights. This Article 12 defines the relative rights of Securityholders and holders of Senior Indebtedness of the Company. Nothing in this Indenture shall:

(1) impair, as between the Company and Securityholders, the obligation of the Company, which is absolute and unconditional, to pay its Guaranty to the extent set forth in Article 11; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a default by the Company under its Guaranty, subject to the rights of holders of Senior Indebtedness of the Company to receive distributions otherwise payable to Securityholders.

SECTION 12.08. Subordination May Not Be Impaired by Company. No right of any holder of Senior Indebtedness of the Company to enforce the subordination of the Guaranty of the Company shall be impaired by any act or failure to act by the Company or by its failure to comply with this Indenture.

SECTION 12.09. Rights of Trustee and Paying Agent. Notwithstanding Section 12.03, the Trustee or Paying Agent shall continue to make payments on any Guaranty and shall not be charged with knowledge of the existence of facts that would prohibit the making of any such payments unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives written notice satisfactory to it that such payments are prohibited by this Article 12. The Issuer, the Company, the Registrar or co-registrar, the Paying Agent, a Representative or a holder of Senior Indebtedness of the Company shall be entitled to give the notice; provided, however, that, if an issue of Senior Indebtedness of the Company has a Representative, only the Representative shall be entitled to give the notice.

The Trustee in its individual or any other capacity shall be entitled to hold Senior Indebtedness of the Company with the same rights it would have if it were not the Trustee. The Registrar and co-registrar and the Paying Agent may do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 12 with respect to any Senior Indebtedness of the Company which may at any time be held by it, to the same extent as any other holder of such Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 12 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.



SECTION 12.10. Distribution or Notice to Representative. Whenever any Person is to make a distribution or give a notice to holders of Senior Indebtedness of the Company, such Person shall be entitled to make such distribution or give such notice to their Representative (if any).

SECTION 12.11. Article 12 Not To Prevent Events of Default or Limit Right To Demand Payment. The failure to make a payment pursuant to a Guaranty by reason of any provision in this Article 12 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 12 shall have any effect on the right of the Securityholders or the Trustee to make a demand for payment on the Company pursuant to its Guaranty.

SECTION 12.12. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 12, the Trustee and the Securityholders shall be entitled to rely (1) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 12.02 are pending, (2) upon a certificate of the liquidating trustee or agent or other Person making such payment or distribution to the Trustee or to the Securityholders or (3) upon the Representatives for the holders of Senior Indebtedness of the Company for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of such Senior Indebtedness and other indebtedness of the Company or the Issuer, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 12. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any Person as a holder of Senior Indebtedness of the Company to participate in any payment or distribution pursuant to this Article 12, the Trustee shall be entitled to request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness of the Company held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such Person under this Article 12, and, if such evidence is not furnished, the Trustee shall be entitled to defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 12.

SECTION 12.13. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take





such action as may be necessary or appropriate to acknowledge or effectuate the subordination between the Securityholders and the holders of Senior Indebtedness of the Company as provided in this Article 12 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 12.14. Trustee Not Fiduciary for Holders of Senior Indebtedness of the Company. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness of the Company and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Securityholders or the Issuer or any other Person, money or assets to which any holders of such Senior Indebtedness shall be entitled by virtue of this Article 12 or otherwise.

SECTION 12.15. Reliance by Holders of Senior Indebtedness of the Company on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness of the Company, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.

## ARTICLE 13

## Subsidiary Guaranties

SECTION 13.01. Guaranties. Each Subsidiary Guarantor hereby unconditionally and irrevocably guarantees, jointly and severally, to each Holder and to the Trustee and its successors and assigns (a) the full and punctual payment of principal of and interest on the Securities when due, whether at maturity, by acceleration, by redemption or otherwise, and all other monetary obligations of the Issuer under this Indenture and the Securities and (b) the full and punctual performance within applicable grace periods of all other obligations of the Issuer under this Indenture and the Securities (all the foregoing being for the purposes of this Article 13 collectively called the "Obligations"). Each Subsidiary Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from such Subsidiary Guarantor and that such Subsidiary Guarantor will remain bound under this Article 13 notwithstanding any extension or renewal of any Obligation.





Each Subsidiary Guarantor waives presentation to, demand of, payment from and protest to the Issuer of any of the Obligations and also waives notice of protest for nonpayment. Each Subsidiary Guarantor waives notice of any default under the Securities or the Obligations. The obligations of each Subsidiary Guarantor hereunder shall not be affected by (a) the failure of any Holder or the Trustee to assert any claim or demand or to enforce any right or remedy against the Issuer or any other Person under this Indenture, the Securities or any other agreement or otherwise; (b) any extension or renewal of any thereof; (c) any rescission, waiver, amendment or modification of any of the terms or provisions of this Indenture, the Securities or any other agreement; (d) the release of any security held by any Holder or the Trustee for the Obligations or any of them; (e) the failure of any Holder or the Trustee to exercise any right or remedy against any other guarantor of the Obligations; or (f) except as set forth in Section 13.06, any change in the ownership of such Subsidiary Guarantor.

Each Subsidiary Guarantor further agrees that its Subsidiary

Guaranty herein constitutes a guarantee of payment, performance and compliance when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder or the Trustee to any security held for payment of the Obligations.

Each Subsidiary Guaranty is, to the extent and in the manner set forth in Article 14, subordinated and subject in right of payment to the prior payment in full of the principal of and premium, if any, and interest on all Senior Indebtedness of the Subsidiary Guarantor giving such Subsidiary Guaranty and each Subsidiary Guaranty is made subject to such provisions of this Indenture.

Except as expressly set forth in Sections 8.01(b), 13.02 and 13.06, the obligations of each Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Subsidiary Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder or the Trustee to assert any claim or demand or to enforce any remedy under this Indenture, the Securities or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the obligations, or by any other act or thing





or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of such Subsidiary Guarantor or would otherwise operate as a discharge of such Subsidiary Guarantor as a matter of law or equity.

Each Subsidiary Guarantor further agrees that its Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation is rescinded or must otherwise be restored by any Holder or the Trustee upon the bankruptcy or reorganization of the Issuer or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder or the Trustee has at law or in equity against any Subsidiary Guarantor by virtue hereof, upon the failure of the Issuer to pay the principal of or interest on any Obligation when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, or to perform or comply with any other Obligation, each Subsidiary Guarantor hereby promises to and shall, upon receipt of written demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders or the Trustee an amount equal to the sum of (1) the unpaid amount of such Obligations, (2) accrued and unpaid interest on such Obligations (but only to the extent not prohibited by law) and (3) all other monetary Obligations of the Issuer to the Holders and the Trustee.

Each Subsidiary Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Obligations guaranteed hereby until payment in full of all Obligations and all obligations to which the Obligations are subordinated as provided in Article 14. Each Subsidiary Guarantor further agrees that, as between it, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Obligations Guaranteed hereby may be accelerated as provided in Article 6 for the purposes of such Subsidiary Guarantor's Subsidiary Guaranty herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Obligations as provided in Article 6, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Subsidiary Guarantor for the purposes of this Section 13.01.

Each Subsidiary Guarantor also agrees to pay any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Section.

SECTION 13.02. Limitation on Liability. Any term or provision of this Indenture to the contrary notwithstanding, the maximum aggregate amount of the Obligations guaranteed hereunder by any Subsidiary Guarantor shall not exceed the maximum amount that can be hereby guaranteed without rendering this Indenture, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

Each Subsidiary Guarantor that makes a payment under its Guaranty will be entitled to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's pro rata portion of such payment based on the respective net assets of all the Subsidiary Guarantors at the time of such payment determined in accordance with GAAP.

SECTION 13.03. Successors and Assigns. This Article 13 shall be binding upon each Subsidiary Guarantor and its successors and assigns and shall enure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges conferred upon that party in this Indenture and in the Securities shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions of this Indenture.

SECTION 13.04. No Waiver. Neither a failure nor a delay on the part of either the Trustee or the Holders in exercising any right, power or privilege under this Article 13 shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right, power or privilege. The rights, remedies and benefits of the Trustee and the Holders herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits which either may have under this Article 13 at law, in equity, by statute or otherwise.

SECTION 13.05. Modification. No modification, amendment or waiver of any provision of this Article 13, nor the consent to any departure by any Subsidiary Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Subsidiary Guarantor in any case shall entitle such Subsidiary Guarantor to any other or further notice or demand in the same, similar or other circumstances.





SECTION 13.06. Release of Subsidiary Guarantor. Upon the sale (including any sale pursuant to any exercise of remedies by a holder of Senior Indebtedness of the Issuer or of such Subsidiary Guarantor) or other disposition (including by way of consolidation or merger) of a Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of such Subsidiary Guarantor (in each case other than a sale or disposition to the Issuer or an Affiliate of the Issuer) or at such time as such Subsidiary Guarantor no longer Guarantees any other Indebtedness of the Company or the Issuer, such Subsidiary Guarantor shall be deemed released from all obligations under this Article 13 without any further action required on the part of the Trustee or any Holder. At the request of the Issuer, the Trustee shall execute and deliver an appropriate instrument evidencing such release.

## ARTICLE 14

## Subordination of Subsidiary Guaranties

SECTION 14.01. Agreement To Subordinate. Each Subsidiary Guarantor agrees, and each Securityholder by accepting a Security agrees, that the Indebtedness evidenced by such Subsidiary Guarantor's Subsidiary Guaranty is subordinated in right of payment, to the extent and in the manner provided in this Article 14, to the prior payment of all Senior Indebtedness of such Subsidiary Guarantor and that the subordination is for the benefit of and enforceable by the holders of such Senior Indebtedness. The Obligations of a Subsidiary Guarantor shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of such Subsidiary Guarantor and only Senior Indebtedness of such Subsidiary Guarantor (including such Subsidiary)

Guarantor's Guaranty of Senior Indebtedness of the Issuer) shall rank senior to the Obligations of such Subsidiary Guarantor in accordance with the provisions set forth herein.

SECTION 14.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of any Subsidiary Guarantor to creditors upon a total or partial liquidation or a total or partial dissolution of such Subsidiary Guarantor or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to such Subsidiary Guarantor or its property:

(1) holders of Senior Indebtedness of such Subsidiary Guarantor shall be entitled to receive payment in full in cash of such Senior Indebtedness before Securityholders shall be entitled to receive any





payment pursuant to the Subsidiary Guaranty of such Subsidiary Guarantor; and

(2) until the Senior Indebtedness of any Subsidiary Guarantor is paid in full in cash, any payment or distribution to which Securityholders would be entitled but for this Article 14 shall be made to holders of such Senior Indebtedness as their interests may appear, except that Securityholders may receive shares of Capital Stock and any debt securities of such Subsidiary Guarantor that are subordinated to such Senior Indebtedness to at least the same extent as Subsidiary Guaranty.

SECTION 14.03. Default on Senior Indebtedness of Subsidiary Guarantor. No Subsidiary Guarantor shall make its Subsidiary Guaranty or purchase, redeem or otherwise retire or defease any Securities or other Obligations (collectively, "pay its Subsidiary Guaranty") if either of the following (a "Payment Default") occurs (1) any Designated Senior Indebtedness of such Subsidiary Guarantor is not paid in cash when due; or (2) any other default on Designated Senior Indebtedness of such Subsidiary Guarantor occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms; unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash; provided, however, that any Subsidiary Guarantor shall be entitled to pay its Subsidiary Guaranty without regard to the foregoing if such Subsidiary Guarantor and the Trustee receive written notice approving such payment from the Representative of all Designated Senior Indebtedness with respect to which a Payment Default has occurred and is continuing. During the continuance of any default (other than a Payment Default) with respect to any Designated Senior Indebtedness of such Subsidiary Guarantor pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, such Subsidiary Guarantor shall not pay its Subsidiary Guaranty for a period (a "Payment Blockage Period") commencing upon the receipt by the Trustee of (with a copy to such Subsidiary Guarantor) written notice (a "Blockage Notice") of such default from the Representative of such Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period shall end earlier if such Payment Blockage Period is terminated (1) by written notice to the Trustee and such Subsidiary Guarantor from the Person or Persons who gave such Blockage Notice; (2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer





continuing; or (3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash. Notwithstanding the provisions described in the immediately preceding two sentences (but subject to the provisions contained in the first sentence of this Section 14.03), unless the holders of such Designated Senior Indebtedness giving such Payment Notice or the Representative of such Designated Senior Indebtedness shall have accelerated the

maturity of such Designated Senior Indebtedness, any Subsidiary Guarantor shall be entitled to resume payments pursuant to its Subsidiary Guaranty after termination of such Payment Blockage Period. No Subsidiary Guarantor shall be subject to more than one Blockage Period in any 360-consecutive day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of such Subsidiary Guarantor during such period; provided, however, that if any Blockage Notice within such 360-day period is given by or on behalf of any holders of Designated Senior Indebtedness of the Issuer (other than the Bank Indebtedness), the Representative of the Bank Indebtedness shall be entitled to give another Blockage Notice within such period; provided further, however, that in no event shall the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any 360-consecutive day period, and there must be 181 days during any 360-consecutive day period during which no Payment Blockage Period is in effect. For purposes of this Section 14.03, no default or event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness of such Subsidiary Guarantor initiating such Payment Blockage Period shall be, or be made, the basis of the commencement of a subsequent Payment Blockage Period by the Representative of such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such default or event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 14.04. Demand for Payment. If a demand for payment is made on a Subsidiary Guarantor pursuant to Article 13, the Trustee shall promptly notify the holders of the Designated Senior Indebtedness of such Subsidiary Guarantor (or their Representatives) of such demand.

SECTION 14.05. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 14 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness of the applicable Subsidiary Guarantor and pay it over to them or their Representatives as their interests may appear.



SECTION 14.06. Subrogation. After all Senior Indebtedness of a Subsidiary Guarantor is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of such Senior Indebtedness to receive distributions applicable to Senior Indebtedness of such Subsidiary Guarantor. A distribution made under this Article 14 to holders of such Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the relevant Subsidiary Guarantor and Securityholders, a payment by such Subsidiary Guarantor on such Senior Indebtedness.

SECTION 14.07. Relative Rights. This Article 14 defines the relative rights of Securityholders and holders of Senior Indebtedness of a Subsidiary Guarantor. Nothing in this Indenture shall:

(1) impair, as between a Subsidiary Guarantor and Securityholders, the obligation of such Subsidiary Guarantor, which is absolute and unconditional, to pay its Subsidiary Guaranty to the extent set forth in Article 13; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a default by such Subsidiary Guarantor under its Subsidiary Guaranty, subject to the rights of holders of Senior Indebtedness of such Subsidiary Guarantor to receive distributions otherwise payable to Securityholders.

SECTION 14.08. Subordination May Not Be Impaired by Issuer or any Subsidiary Guarantor. No right of any holder of Senior Indebtedness of any Subsidiary Guarantor to enforce the subordination of the Subsidiary Guaranty of such Subsidiary Guarantor shall be impaired by any act or failure to act by the Issuer or such Subsidiary Guarantor or by their failure to comply with this Indenture.

SECTION 14.09. Rights of Trustee and Paying Agent. Notwithstanding Section 14.03, the Trustee or Paying Agent shall continue to make payments on any Subsidiary Guaranty and shall not be charged with knowledge of the existence of facts that would prohibit the making of any such payments

unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives written notice satisfactory to it that such payments are prohibited by this Article 14. The Issuer, the relevant Subsidiary Guarantor, the Registrar or co-registrar, the Paying Agent, a Representative or a holder of Senior Indebtedness of such Subsidiary Guarantor shall be entitled to give the notice; provided, however, that, if an issue of Senior Indebtedness of any Subsidiary Guarantor has a Representative, only the Representative shall be entitled to give the notice.



The Trustee in its individual or any other capacity shall be entitled to hold Senior Indebtedness of any Subsidiary Guarantor with the same rights it would have if it were not the Trustee. The Registrar and co-registrar and the Paying Agent may do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 14 with respect to any Senior Indebtedness of any Subsidiary Guarantor which may at any time be held by it, to the same extent as any other holder of such Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 14 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

SECTION 14.10. Distribution or Notice to Representative. Whenever any Person is to make a distribution or give a notice to holders of Senior Indebtedness of any Subsidiary Guarantor, such Person shall be entitled to make such distribution or give such notice to their Representative (if any).

SECTION 14.11. Article 14 Not To Prevent Events of Default or Limit Right To Demand Payment. The failure to make a payment pursuant to a Subsidiary Guaranty by reason of any provision in this Article 14 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 14 shall have any effect on the right of the Securityholders or the Trustee to make a demand for payment on any Subsidiary Guarantor pursuant to its Subsidiary Guaranty.

SECTION 14.12. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 14, the Trustee and the Securityholders shall be entitled to rely (1) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 14.02 are pending, (2) upon a certificate of the liquidating trustee or agent or other Person making such payment or distribution to the Trustee or to the Securityholders or (3) upon the Representatives for the holders of Senior Indebtedness of any Subsidiary Guarantor for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of such Senior Indebtedness and other indebtedness of such Subsidiary Guarantor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 14. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any Person as a holder of Senior Indebtedness of any Subsidiary Guarantor to



participate in any payment or distribution pursuant to this Article 14, the Trustee shall be entitled to request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness of such Subsidiary Guarantor held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such Person under this Article 14, and, if such evidence is not furnished, the Trustee shall be entitled to defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 14.

SECTION 14.13. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or

effectuate the subordination between the Securityholders and the holders of Senior Indebtedness of any Subsidiary Guarantor as provided in this Article 14 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 14.14. Trustee Not Fiduciary for Holders of Senior Indebtedness of Subsidiary Guarantor. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness of any Subsidiary Guarantor and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Securityholders or the Issuer or any other Person, money or assets to which any holders of such Senior Indebtedness shall be entitled by virtue of this Article 14 or otherwise.

SECTION 14.15. Reliance by Holders of Senior Indebtedness of Subsidiary Guarantors on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness of any Subsidiary Guarantor, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.



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ARTICLE 15

Miscellaneous

SECTION 15.01. Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 15.02. Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail addressed as follows:

if to the Issuer or any Subsidiary Guarantor:

Parallelweg 6,
Etten-Leur 4870AA
The Netherlands

Attention: Managing Director

With a copy to:

Flowserve Corporation
222 West Las Colinas Blvd.
Suite 1500
Irving, TX 75039

Attention of Renee Hornbaker

if to the Trustee:

The Bank of New York
101 Barclay Street, Floor 21W
New York, NY 10286

Attention of Corporate Trust
Administration - Global Finance Unit

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to Holders at their registered addresses as recorded in the register, and (ii) so long as the Securities are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the Holders of the Securities in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such publication is not practicable, in one other leading English language daily

newspaper with general circulation in Europe, such newspaper being published on





each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions.

The Issuer, the Company, any Subsidiary Guarantor or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 15.03. Consent to Jurisdiction and Service. The Issuer will appoint CT Corporation system, 111 8th Avenue, 13th floor, New York, New York 10011 as its agent for actions brought under Federal or state securities laws brought in any Federal or state court located in the Borough of Manhattan in The City of New York and will submit to such jurisdiction.

SECTION 15.04. Communication by Holders with Other Holders. Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Issuer, the Company, any Subsidiary Guarantor the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

SECTION 15.05. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Issuer to the Trustee to take or refrain from taking any action under this Indenture, the Issuer shall furnish to the Trustee:

(1) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.





SECTION 15.06. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the individual making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

SECTION 15.07. When Securities Disregarded. In determining

whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Issuer or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded. Also, subject to the foregoing, only Securities outstanding at the time shall be considered in any such determination.

SECTION 15.08. Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Securityholders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 15.09. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York, a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) system is not open or, so long as the Securities are listed on the Luxembourg Stock Exchange, the City of Luxembourg. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.



SECTION 15.10. Governing Law. This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

SECTION 15.11. No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Issuer, the Company or any Subsidiary Guarantor shall not have any liability for any obligations of the Issuer under the Securities or this Indenture, of the Company under its Guaranty or this Indenture or of such Subsidiary Guarantor under its Subsidiary Guaranty or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 15.12. Successors. All agreements of the Issuer in this Indenture and the Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 15.13. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 15.14. Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.



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

FLOWSERVE FINANCE B.V.,

by /s/ JOHN M. NANOS
---

Name: John M. Nanos
Title: Managing Director

by /s/ M. KATHLEEN MCVAY
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE CORPORATION,

by /s/ RENEE J. HORNBAKER
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO., INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,



HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,
INTERNATIONAL PIPING SERVICES COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA, INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN, INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.
PUMP INVESTMENTS, INC.
FLOWSERVE HOLDINGS, INC.
IPSCO HOLDING, INC.

by /s/ JOHN M. NANOS
---
Name: John M. Nanos

Title:

THE BANK OF NEW YORK,

by /s/ LUIS PEREZ
---
Name: Luis Perez
Title: Assistant V.P.



RULE 144A/REGULATION S APPENDIX

PROVISIONS RELATING TO INITIAL SECURITIES,
PRIVATE EXCHANGE SECURITIES
AND EXCHANGE SECURITIES

1. Definitions

1.1 Definitions

For the purposes of this Appendix the following terms shall have the meanings indicated below:

"Applicable Procedures" means, with respect to any transfer or transaction involving a Temporary or Permanent Regulation S Global Security, a Rule 144A Global Security or beneficial interest therein, the rules and procedures of the Depository for such Global Security, Euroclear and Clearstream, in each case to the extent applicable to such transaction and as in effect from time to time.

"Clearstream" means Clearstream Banking, societe anonyme.

"Depository" means Clearstream, Euroclear, their respective nominees and their respective successors.

"Euroclear" means Morgan Guaranty Trust Company of New York (Brussels office) as operator of the Euroclear Clearance System or any successor securities clearing agency.

"Exchange Securities" means (1) the 12-1/4% Senior Subordinated Notes Due 2010 issued pursuant to the Indenture in connection with a Registered Exchange Offer pursuant to a Registration Rights Agreement and (2) Additional Securities, if any, issued pursuant to a registration statement filed with the SEC under the Securities Act.

"Global Securities Legend" means the legend set forth under that caption in Exhibit 1 to this Indenture.

"Initial Purchasers" means (1) with respect to the Initial Securities issued on the Issue Date, the entities identified as Purchasers in the Purchase Agreement, and (2) with respect to each issuance of Additional Securities, the Persons purchasing such Additional Securities under the related Purchase Agreement.

"Initial Securities" means (1) E.100,00,000 aggregate principal amount of 12-1/4% Senior Subordinated Notes Due 2010 issued on the Issue Date and (2) Additional Securities, if any, issued in a transaction exempt from the registration requirements of the Securities Act.



"Private Exchange" means the offer by the Issuer, pursuant to a Registration Rights Agreement, to the Initial Purchasers to issue and deliver to each Initial Purchaser, in exchange for the Initial Securities held by the Initial Purchaser as part of its initial distribution, a like aggregate principal amount of Private Exchange Securities.

"Private Exchange Securities" means any 12-1/4% Senior

Subordinated Notes Due 2010 issued in connection with a Private Exchange.

"Purchase Agreement" means (1) with respect to the Initial Securities issued on the Issue Date, the Purchase Agreement dated August 3, 2000 among the Issuer and the Initial Purchasers, and (2) with respect to each issuance of Additional Securities, the purchase agreement or underwriting agreement among the Issuer and the Persons purchasing such Additional Securities.

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

"Registered Exchange Offer" means the offer by the Issuer, pursuant to a Registration Rights Agreement, to certain Holders of Initial Securities, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount of Exchange Securities registered under the Securities Act.

"Registration Rights Agreement" means (1) with respect to the Initial Securities issued on the Issue Date, the Registration Rights Agreement dated August 3, 2000, among the Issuer, the Company and the Initial Purchasers, and (2) with respect to each issuance of Additional Securities issued in a transaction exempt from the registration requirements of the Securities Act, the registration rights agreement, if any, among the Issuer and the Persons purchasing such Additional Securities under the related Purchase Agreement.

"Regulation S" means Regulation S under the Securities Act, as amended.

"Regulation S Securities" means all Initial Securities offered and sold outside the United States in reliance on Regulation S.

"Restricted Period", with respect to any Securities, means the period of 40 consecutive days beginning on and including the later of (i) the day on which such Securities are first offered to persons other than distributors (as defined in Regulation S under the



Securities Act) in reliance on Regulation S and (ii) the Issue Date with respect to such Securities.

"Restricted Securities Legend" means the legend set forth in Section 2.3(c) herein.

"Rule 144A" means Rule 144A under the Securities Act, as amended.

"Rule 144A Securities" means all Initial Securities offered and sold to QIBs in reliance on Rule 144A.

"Securities" means the Initial Securities, the Exchange Securities and the Private Exchange Securities, treated as a single class.

"Securities Act" means the Securities Act of 1933.

"Securities Custodian" means, with respect to the Securities issued as Global Securities, the person designated as the common depositary by Euroclear or Clearstream or their respective successors, which shall initially be The Bank of New York Depositary (Nominees) Limited.

"Shelf Registration Statement" means the registration statement issued by the Issuer in connection with the offer and sale of Initial Securities or Private Exchange Securities pursuant to a Registration Rights Agreement.

"Transfer Restricted Securities" means Securities that bear or are required to bear the legend set forth in Section 2.3(c) hereto.

1.2 Other Definitions

| Term | Defined in Section: |
|---|---|
| "Agent Members" | 2.1(b) |
| "Global Security" | 2.1(a) |
| "Permanent Regulation S Global Security" | 2.3(b) |
| "Regulation S Global Securities" | 2.1(a) |
| "Rule 144A Global Security" | 2.1(a) |
| "Temporary Regulation S Global Security" | 2.1(a) |

2. The Securities.

2.1 Form and Dating. The Initial Securities issued on the date hereof shall be (i) offered and sold by the Issuer pursuant to the Purchase Agreement and (ii) resold, initially only to (A) QIBs in reliance on Rule 144A and (B)



Persons other than U.S. Persons (as defined in Regulation S) in reliance on Regulation S. Such Initial Securities may thereafter be transferred to, among others, QIBs and purchasers in reliance on Regulation S.

(a) Global Securities. Rule 144A Securities shall be issued initially in the form of one or more permanent global Securities in definitive, fully registered form (collectively, the "Rule 144A Global Security") and Regulation S Securities shall be issued initially in the form of one or more temporary global Securities (collectively, the "Temporary Regulation S Global Security"), in each case without interest coupons and bearing the Global Securities Legend and Restricted Securities Legend, which shall be deposited on behalf of the purchasers of the Securities represented thereby with the Securities Custodian, and registered in the name of the Depository or a nominee of the Depository, duly executed by the Issuer and authenticated by the Trustee as provided in the Indenture. Except as set forth in Section 2.3, beneficial ownership interests in the Temporary Regulation S Global Security shall not be exchangeable for interests in the Rule 144A Global Security or a Permanent Regulation S Global Security (as defined below) or any other Security without a Restricted Securities Legend until the expiration of the Restricted Period. Upon the expiration of the Restricted Period, beneficial interests in the Securities represented by the Temporary Regulation S Global Security may be exchanged for interests in the Permanent Regulation S Global Security as described below in Section 2.3(b). The Rule 144A Global Security, the Temporary Regulation S Global Security and the Permanent Regulation S Global Security are each referred to herein as a "Global Security" and are collectively referred to herein as "Global Securities." The Temporary Regulation S Global Security and the Permanent Regulation S Global Security are referred to herein as "Regulation S Global Securities." The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depository or its nominee as hereinafter provided.

(b) Book-Entry Provisions. This Section 2.1(b) shall apply only to a Global Security deposited with or on behalf of the Depository.

The Issuer shall execute and the Trustee shall, in accordance with this Section 2.1(b), authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depository for such Global Security or Global Securities or the nominee of such Depository and (b) shall be delivered by the Trustee to such Depository or pursuant to such Depository's instructions or held by the Trustee as custodian for the Depository.



Members of, or participants in, the Depository ("Agent

Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository, the Securities Custodian or by the Trustee as the custodian of the Depository or under such Global Security, and the Issuer, the Trustee and any agent of the Issuer or the Trustee shall be entitled to treat the Depository as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Trustee or any agent of the Issuer or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices of such Depository governing the exercise of the rights of a holder of a beneficial interest in any Global Security.

(c) Certificated Securities. Except as provided in this Section 2.1 or Section 2.3 or 2.4, owners of beneficial interests in Global Securities shall not be entitled to receive physical delivery of certificated Securities.

2.2 Authentication. The Trustee shall authenticate and deliver: (1) on the Issue Date, an aggregate principal amount of E.100,000,000 12-1/4% Senior Subordinated Notes Due 2010, (2) any Additional Securities for an original issue in an aggregate principal amount specified in the written order of the Issuer pursuant to Section 2.02 of the Indenture and (3) Exchange Securities or Private Exchange Securities for issue only in a Registered Exchange Offer or a Private Exchange, respectively, pursuant to a Registration Rights Agreement, for a like principal amount of Initial Securities, in each case upon a written order of the Issuer signed by two Officers of the Issuer. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of Securities is to be authenticated and, in the case of any issuance of Additional Securities pursuant to Section 2.13 of the Indenture, shall certify that such issuance is in compliance with Sections 2.13 and 4.03 of the Indenture.

2.3 Transfer and Exchange.

(a) Transfer and Exchange of Global Securities. (i) The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depository, in accordance with this Indenture (including applicable restrictions on transfer set forth herein, if



any) and the procedures of the Depository therefor. A transferor of a beneficial interest in a Global Security shall deliver to the Registrar a written order given in accordance with the Depository's procedures containing information regarding the participant account of the Depository to be credited with a beneficial interest in the Global Security. The Registrar shall, in accordance with such instructions instruct the Depository to credit to the account of the Person specified in such instructions a beneficial interest in the Global Security and to debit the account of the Person making the transfer the beneficial interest in the Global Security being transferred. Transfers by an owner of a beneficial interest in the Rule 144A Global Security to a transferee who takes delivery of such interest through the Regulation S Global Security, whether before or after the expiration of the Restricted Period, will be made only upon receipt by the Trustee of a certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 under the Securities Act and that, if such transfer is being made prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

(ii) If the proposed transfer is a transfer of a beneficial interest in one Global Security to a beneficial interest in another Global Security, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Global Security to which such interest is being transferred in an amount equal to the principal amount of the interest to be so transferred, and the Registrar shall reflect on its books and records the date and a corresponding decrease in the principal amount of the Global Security from which such interest is being transferred.

(iii) Notwithstanding any other provisions of this Appendix (other than the provisions set forth in Section 2.4), a Global Security may not be transferred as a whole except by the Depository to a nominee of the

Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(iv) In the event that a Restricted Global Security is exchanged for Securities in certificated registered form pursuant to Section 2.4 of this Appendix, prior to the consummation of a Registered Exchange Offer or the effectiveness of a Shelf Registration Statement with respect to such Securities, such Securities may be exchanged only in accordance with such procedures as are substantially consistent with the provisions of this Section 2.3



(including the certification requirements set forth on the reverse of the Initial Securities intended to ensure that such transfers comply with Rule 144A or Regulation S, as the case may be) and such other procedures as may from time to time be adopted by the Issuer.

(b) Restrictions on Transfer of Temporary Regulation S Global Security. (i) Prior to the expiration of the Restricted Period, interests in the Temporary Regulation S Global Security may only be held through Euroclear or Clearstream. During the Restricted Period, beneficial ownership interests in the Temporary Regulation S Global Security may only be sold, pledged or transferred through Euroclear or Clearstream in accordance with the Applicable Procedures and only (A) to the Issuer, (B) inside the United States to a person whom the seller reasonably believes is a Qualified Institutional Buyer (as defined in Rule 144A under the Securities Act) in a transaction meeting the requirements of Rule 144A, (C) outside the United States in an offshore transaction in accordance with Rule 904 under the Securities Act, (D) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (E) pursuant to an effective registration statement under the Securities Act, in each of cases (A) through (E) in accordance with any applicable securities laws of any state of the United States.

(ii) Upon the expiration of the Restricted Period, beneficial ownership interests in the Temporary Regulation S Global Security may be exchanged for interests in a permanent global security in definitive, fully registered form without the Restricted Security Legend (the "Permanent Regulation S Global Security") upon certification to the Trustee that such interests are owned either by non-U.S. persons or U.S. persons who purchased such interests pursuant to an exemption from, or transfer not subject to, the registration requirements of the Securities Act. On or prior to the expiration of the Restricted Period, each Holder of a Temporary Regulation S Global Security shall deliver to Euroclear or Clearstream (as applicable) a Regulation S Certificate in the form of Exhibit B-1 attached hereto; provided, however, that any Holder of a Temporary Regulation S Global Security upon expiration of the Restricted Period or on any payment date that has previously delivered a Regulation S Certificate hereunder shall not be required to deliver any subsequent Regulation S Certificate (unless the certificate previously delivered is no longer true as of such subsequent date, in which case such beneficial owner shall promptly notify Euroclear and Clearstream, as applicable, thereof and shall deliver to the Paying Agent or the Trustee an updated Regulation S Certificate). Euroclear or Clearstream, as applicable, shall deliver to the Paying Agent or the Trustee



a certificate (a "Non-U.S. Certificate") substantially in the form of Exhibit B-2 attached hereto promptly upon the receipt of each such Regulation S Certificate, and no such Holder (or transferee from such Holder) shall be entitled to receive an interest in a Permanent Regulation S Global Security or any payment of distributions or a redemption payment, if applicable, or any other payment with respect to its beneficial interest in a Temporary Regulation S Global Security prior to the Paying Agent or the Trustee receiving such Non-U.S. Certificate from Euroclear or Clearstream with respect to the portion of the Temporary Regulation S Global Security owned by such Holder (and, with

respect to an interest in the Permanent Regulation S Global Security, prior to the expiration of the Restricted Period).

The Permanent Regulation S Global Security shall bear a legend in substantially the following form:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

(iii) Any payments of distributions or a redemption price, if applicable, or any other payment on a Temporary Regulation S Global Security received by Euroclear or Clearstream with respect to any portion of such Regulation S Global Security owned by a Holder that has not delivered the Regulation S Certificate required by Section 2.3(b) shall be held by Euroclear and Clearstream solely as agents for the Paying Agent and the Trustee. Euroclear and Clearstream shall remit such payments to the applicable Holder (or to a Euroclear or Clearstream member on behalf of such Holder) only after Euroclear or Clearstream has received the requisite Regulation S Certificate. Until the Paying Agent or the Trustee has received a Non-U.S. Certificate from Euroclear or Clearstream, as applicable, that it has received the requisite Regulation S Certificate with respect to the beneficial ownership of any portion of a Temporary Regulation S Global Security, the Paying Agent or the Trustee may revoke the right of Euroclear or Clearstream, as applicable, to hold any payments made with respect to such portion of such Regulation S Global Security. If the Paying Agent or the Trustee exercises its right of revocation pursuant to the immediately preceding sentence, Euroclear or Clearstream, as applicable, shall return such payments to the Paying Agent or the Trustee and



the Paying Agent or the Trustee, as applicable, shall hold such payments until Euroclear or Clearstream, as applicable, has provided the necessary Non-U.S. Certificates to the Paying Agent or the Trustee (at which time the Paying Agent shall forward such payments to Euroclear or Clearstream, as applicable, to be remitted to the beneficial owner that is entitled thereto on the records of Euroclear or Clearstream (or on the records of their respective members)).

(iv) Upon the expiration of the Restricted Period, the Issuer shall prepare and execute the Permanent Regulation S Global Security in accordance with the terms of this Indenture and deliver it to the Trustee for authentication. The Trustee shall deliver the Permanent Regulation S Global Security to the Securities Custodian. Any transfers of beneficial ownership interests in the Temporary Regulation S Global Security made in reliance on Regulation S shall thenceforth be recorded by the Depository or the Securities Custodian by making an appropriate increase in the principal amount of the Permanent Regulation S Global Security and a corresponding decrease in the principal amount of the Temporary Regulation S Global Security. At such time as the principal amount of the Temporary Regulation S Global Security has been reduced to zero, the Depository or the Securities Custodian shall return the Temporary Regulation S Global Security to the Trustee, who shall cancel the Temporary Regulation S Global Security and deliver it to the Issuer.

(c) Legend. (i) Except as permitted by the following paragraphs (ii), (iii) and (iv), and except for the permanent Regulation S Global Security as provided above, each Security certificate evidencing the Restricted Global Securities (and all Securities issued in exchange therefor or in substitution thereof) shall bear a legend in substantially the following form:

> THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE

EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED



INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Restricted Global Security) pursuant to Rule 144 under the Securities Act, the Registrar shall permit the transferee thereof to exchange such Transfer Restricted Security for a certificated Security that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security, if the transferor thereof certifies in writing to the Registrar that such sale or transfer was made in reliance on Rule 144 (such certification to be in the form set forth on the reverse of the Security).

(iii) After a transfer of any Initial Securities or Private Exchange Securities pursuant to and during the period of the effectiveness of a Shelf Registration Statement with respect to such Initial Securities or Private Exchange Securities, as the case may be, all requirements pertaining to legends on such Initial Security or such Private Exchange Security will cease to apply, the requirements requiring any such Initial Security or such Private Exchange Security issued to certain Holders be issued in global form will cease to apply, and a certificated Initial Security or Private Exchange Security or an Initial Security or Private Exchange Security in global form, in each case without restrictive transfer legends, will be available to the transferee of the Holder of such Initial Securities or Private Exchange Securities upon exchange of such transferring Holder's certificated Initial Security or Private Exchange Security or directions to transfer such Holder's interest in the Global Security, as applicable.

(iv) Upon the consummation of a Registered Exchange Offer with respect to the Initial Securities, all requirements pertaining to such Initial Securities that Initial Securities issued to certain Holders be issued in global form will still apply with respect to Holders of such



Initial Securities that do not exchange their Initial Securities, and Exchange Securities in certificated or global form will be available to Holders that exchange such Initial Securities in such Registered Exchange Offer.

(v) Upon the consummation of a Private Exchange with respect to the Initial Securities, all requirements pertaining to such Initial Securities that Initial Securities issued to certain Holders be issued in global form will still apply with respect to Holders of such Initial Securities that do not exchange their Initial Securities, and Private Exchange Securities in global form with the global securities legend and the Restricted Securities Legend set forth in Exhibit 1 hereto will be available to Holders that exchange such Initial Securities in such Private Exchange.

(c) Cancellation or Adjustment of Global Security. At such

time as all beneficial interests in a Global Security have either been exchanged for certificated Securities, redeemed, purchased or canceled, such Global Security shall be returned to the Trustee for cancellation or retained and canceled by the Depository or the Securities Custodian. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for certificated Securities, redeemed, purchased or canceled, the principal amount of Securities represented by such Global Security shall be reduced and an adjustment shall be made on the books and records of the Depository with respect to such Global Security, by the Trustee or the Securities Custodian, to reflect such reduction.

(d) Obligations with Respect to Transfers and Exchanges of Securities. (i) To permit registrations of transfers and exchanges, the Issuer shall execute and the Trustee shall authenticate certificated Securities and Global Securities at the Registrar's or co-registrar's request.

(ii)No service charge shall be made for any registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charge payable upon exchange or transfer pursuant to Sections 3.06, 4.06, 4.09 and 9.05 of the Indenture).

(iii) The Registrar or co-registrar shall not be required to register the transfer of or exchange of any Security for a period beginning 15 Business Days before the mailing of a notice of an offer to repurchase or redeem Securities or 15 Business Days before an interest payment date.



(iv) Prior to the due presentation for registration of transfer of any Security, the Issuer, the Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Issuer, the Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Securities issued upon any transfer or exchange pursuant to the terms of the Indenture shall evidence the same debt and shall be entitled to the same benefits under the Indenture as the Securities surrendered upon such transfer or exchange.

(e) No Obligation of the Trustee. (i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Security, a member of, or a participant in the Depository or other Person with respect to the accuracy of the records of the Depository or its nominee or of any participant or member thereof, with respect to any ownership interest in the Securities or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depository) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Securities shall be given or made only to or upon the order of the registered Holders (which shall be the Depository or its nominee in the case of a Global Security). The rights of beneficial owners in any Global Security shall be exercised only through the Depository subject to the applicable rules and procedures of the Depository. The Trustee may rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Depository participants, members or beneficial owners in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of the Indenture, and to examine the

same to determine substantial compliance as to form with the express requirements hereof.

2.4 Certificated Securities.

(a) A Restricted Global Security deposited with the Depository, with the Trustee as custodian for the Depository or with the Securities Custodian pursuant to Section 2.1 shall be transferred to the beneficial owners thereof in the form of certificated Securities in an aggregate principal amount equal to the principal amount of such Global Security, in exchange for such Global Security, only if such transfer complies with Section 2.3 and (i) the Depository notifies the Issuer that it is unwilling or unable to continue as Depository for such Restricted Global Security or if at any time such Depository ceases to be a "clearing agency" registered under the Exchange Act and a successor depositary is not appointed by the Issuer within 90 days of such notice, (ii) an Event of Default has occurred and is continuing or (iii) the Issuer, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of certificated Securities under the Indenture.

(b) Any Restricted Global Security that is transferable to the beneficial owners thereof pursuant to this Section shall be surrendered by the Depository to the Trustee located at its principal corporate trust office in the Borough of Manhattan, The City of New York, to be so transferred, in whole or from time to time in part, without charge, and the Trustee shall authenticate and deliver, upon such transfer of each portion of such Restricted Global Security, an equal aggregate principal amount of certificated Initial Securities of authorized denominations. Any portion of a Restricted Global Security transferred pursuant to this Section shall be executed, authenticated and delivered only in denominations of E.1,000 principal amount and any integral multiple thereof and registered in such names as the Depository shall direct. Any certificated Initial Security or Private Exchange Security delivered in exchange for an interest in the Restricted Global Security shall, except as otherwise provided by Section 2.3(c), bear the restricted securities legend set forth in Exhibit 1 hereto.

(c) Subject to the provisions of Section 2.4(b), the registered Holder of a Global Security shall be entitled to grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under the Indenture or the Securities.



(d) In the event of the occurrence of either of the events specified in Section 2.4(a), the Issuer shall promptly make available to the Trustee a reasonable supply of certificated Securities in definitive, fully registered form without interest coupons.



EXHIBIT 1
to
RULE 144A/REGULATION S APPENDIX

[FORM OF FACE OF INITIAL SECURITY]

[Global Securities Legend]

UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE EUROCLEAR CLEARANCE SYSTEM ("EUROCLEAR") OR CLEARSTREAM BANKING, SOCIETE ANONYME ("CLEARSTREAM"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY GLOBAL SECURITY ISSUED IS

REGISTERED IN THE NAME OF BANK OF NEW YORK DEPOSITARY (NOMINEES) LIMITED OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF CLEARSTREAM OR EUROCLEAR, AS THE CASE MAY BE (AND ANY PAYMENT IS MADE TO THE BANK OF NEW YORK DEPOSITARY (NOMINEES) LIMITED, OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF CLEARSTREAM OR EUROCLEAR, AS THE CASE MAY BE), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, THE BANK OF NEW YORK DEPOSITARY (NOMINEES) LIMITED, HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CLEARSTREAM OR EUROCLEAR, AS THE CASE MAY BE, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

[Restricted Securities Legend]

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED OF IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION



STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.





No.: ISIN No.:
Common Code No.:

12-1/4% Senior Subordinated Notes Due 2010

Flowserve Finance B.V., a Netherlands besloten vennootschap with corporate seat in Amsterdam, promises to pay to The Bank of New York Depositary (Nominees) Limited, or registered assigns, the principal amount set forth on Schedule A hereto on August 15, 2010.

Interest Payment Dates: February 15 and August 15.

Record Dates: February 1 and August 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: August 8, 2000

FLOWSERVE FINANCE B.V.,

by
---
Name: John M. Nanos
Title: Managing Director

by
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE CORPORATION,

by
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO., INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,



INTERNATIONAL PIPING SERVICES COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA, INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.,
PUMP INVESTMENTS, INC.,

FLOWSERVE HOLDINGS, INC.,
IPSCO HOLDING, INC.,

by
---
Name: John M. Nanos
Title:



TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

THE BANK OF NEW YORK,
as Trustee, certifies
that this is one of
the Securities referred
to in the Indenture.

by
---
Authorized Signatory



[FORM OF REVERSE SIDE OF INITIAL SECURITY]

12-1/4% Senior Subordinated Notes Due 2010

1. Interest

Flowserve Finance B.V., a Netherlands besloten vennootschap with corporate seat in Amsterdam, (such besloten vennootschap, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Issuer"), promises to pay interest on the principal amount of this Security at the rate per annum shown above; provided, however, that if a Registration Default (as defined in the Registration Rights Agreement) occurs, additional interest will accrue on this Security at a rate of 0.50% per annum (increasing by an additional 0.50% per annum after each consecutive 90-day period that occurs after the date on which such Registration Default occurs up to a maximum additional interest rate of 2.00%) from and including the date on which any such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. The Issuer will pay interest semiannually on February 15 and August 15 of each year, commencing February 15, 2001. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 8, 2000. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Issuer will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

2. Method of Payment

The Issuer will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the February 1 or August 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Issuer will pay principal and interest in Euro or any successor money of the European Union that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by the Depository. The Issuer will make all payments in respect of

a certificated Security (including principal, premium and interest) by mailing a check to the registered address of each Holder thereof; provided, however, that payments on a certificated Security will be made by wire transfer to a Euro account maintained by the payee with a bank in a member state of the European Union if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. Paying Agent and Registrar

Initially, (a) The Bank of New York, a New York banking corporation (the "Trustee"), will act as Trustee, U.S. Paying Agent and Registrar, and (b) Banque Internationale a Luxembourg will act as Luxembourg Paying Agent. The Issuer may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Issuer or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture

The Issuer issued the Securities under an Indenture dated as of August 8, 2000 (the "Indenture"), among the Company, the Issuer, the Subsidiary Guarantors and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of the Indenture (the "Act"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Issuer. The Issuer shall be entitled, subject to its compliance with Section 4.03 of the Indenture, to issue Additional Securities pursuant to Section 2.13 of the Indenture. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor will be treated as a single class for all purposes under the Indenture. The Indenture contains covenants that limit the ability of the Company to incur additional indebtedness; pay dividends or distributions on, or redeem or repurchase capital stock; make investments; issue or sell capital stock of subsidiaries; engage in transactions with affiliates;



transfer or sell assets; guarantee indebtedness; restrict dividends or other payments of subsidiaries; and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. The Indenture also contains covenants that limit the Issuer's ability to engage in business activities and its ability to use the proceeds from the issuance of Securities. These covenants are subject to important exceptions and qualifications.

5. Optional Redemption

Except as set forth below, the Issuer shall not be entitled to redeem the Securities at its option prior to August 15, 2005.

On and after August 15, 2005, the Issuer shall be entitled at its option to redeem all or a portion of the Securities upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| Period | Redemption Price |
|---|---|

| | |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000% |

In addition, prior to August 15, 2003, the Issuer shall be entitled at its option on one or more occasions to redeem Securities (which includes Additional Securities, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Securities (which includes Additional Securities, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds contributed to the Issuer from one or more Public Equity Offerings; provided, however, that (1) at least 65% of such aggregate principal amount of Securities (which includes Additional Securities, if any) remains outstanding immediately after the occurrence of each such redemption (other than Securities held, directly or indirectly, by the Issuer or its Affiliates); and (2) each such redemption occurs within 60 days after the closing date of the related Public Equity Offering.



6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than E.1,000 principal amount may be redeemed in part but only in whole multiples of E.1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Issuer to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the related interest payment date) as provided in, and subject to the terms of, the Indenture.

8. Subordination

The Securities are subordinated to Senior Indebtedness of the Issuer, as defined in the Indenture. To the extent provided in the Indenture, Senior Indebtedness of the Issuer must be paid before the Securities may be paid. The Issuer agrees, and each Securityholder by accepting a Security agrees, to the subordination provisions contained in the Indenture and authorizes the Trustee to give it effect and appoints the Trustee as attorney-in-fact for such purpose.

9. Guaranties

The payment by the Issuer of the principal of, and premium and interest on, the Securities is fully and unconditionally guaranteed on a joint and several senior subordinated basis by each of the Company and the Subsidiary Guarantors.



10. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of E.1,000 principal amount and whole multiples of E.1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

11. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of it for all purposes.

12. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Issuer at its request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Issuer and not to the Trustee for payment.

13. Discharge and Defeasance

Subject to certain conditions, the Issuer at any time shall be entitled to terminate some or all of its obligations under the Securities and the Indenture if the Issuer deposits with the Trustee money, European Government Obligations or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

14. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture and the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a



majority in principal amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company, the Issuer, the Subsidiary Guarantors and the Trustee shall be entitled to amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to comply with Article 5 of the Indenture, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to add guarantees with respect to the Securities including Subsidiary Guaranties, or to secure the Securities, or to add additional covenants or surrender rights and powers conferred on the Company, the Issuer, the Subsidiary Guarantors, or to comply with any request of the SEC in connection with qualifying the Indenture under the Act, or to make certain changes in the subordination provisions or to make any change that does not adversely affect the rights of any Securityholder.

15. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon acceleration or otherwise, or failure by the Issuer to purchase Securities when required; (iii) failure by the Company or the Issuer, as applicable, to comply with other agreements in the Indenture or the Securities, in certain cases subject to notice and lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company, Significant Subsidiaries, Subsidiary Guarantors, or the Issuer, as applicable, if the amount accelerated (or so unpaid) exceeds $10.0 million; (v) certain events of bankruptcy or insolvency with respect to the Company, the Issuer, the Subsidiary Guarantors or

the Significant Subsidiaries; and (vi) certain judgments or decrees for the payment of money in excess of $10.0 million and (vii) certain defaults with respect to the Company Guaranty or Subsidiary Guaranties. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Securities may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives indemnity or security satisfactory



to it. Subject to certain limitations, Holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in the interest of the Holders.

16. Trustee Dealings with the Issuer

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Issuer or its Affiliates and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee.

17. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Issuer, the Company, any Subsidiary Guarantor or the Trustee shall not have any liability for any obligations of the Issuer, the Company or any Subsidiary Guarantor under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

19. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).



20. CUSIP, ISIN and Common Code Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Issuer has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. To the extent such numbers have been issued, the Issuer has caused ISIN and Common Code numbers to be similarly printed on the Securities and has similarly instructed the Trustee. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and

reliance may be placed only on the other identification numbers placed thereon.

21. Holders' Compliance with Registration Rights Agreement.

Each Holder of a Security, by acceptance hereof, acknowledges and agrees to the provisions of the Registration Rights Agreement, including the obligations of the Holders with respect to a registration and the indemnification of the Issuer to the extent provided therein.

22. Governing Law.

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.



THE ISSUER WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE TO THE SECURITY HOLDER A COPY OF THE INDENTURE WHICH HAS IN IT THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO:

FLOWSERVE FINANCE B.V.
PARALLELWEG 6
ETTEN-LEUR 4870AA
THE NETHERLANDS

ATTENTION: MANAGING DIRECTOR

WITH A COPY TO:

FLOWSERVE CORPORATION
222 WEST LAS COLINAS BLVD.
SUITE 1500
IRVING, TX 75039

ATTENTION: RENEE HORNBAKER



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ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint agent to transfer this Security on the books of the Issuer. The agent may substitute another to act for him.

---

Date: _____ Your Signature: _____

---

Sign exactly as your name appears on the other side of this Security.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act after the later of the date of original issuance of such Securities and the last date, if any, on which such Securities were

owned by the Issuer or any Affiliate of the Issuer, the undersigned confirms that such Securities are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

(1) [ ] to the Issuer; or

(2) [ ] pursuant to an effective registration statement under the Securities Act of 1933; or

(3) [ ] inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each



case pursuant to and in compliance with Rule 144A under the Securities Act of 1933; or

(4) [ ] outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act of 1933 in compliance with Rule 904 under the Securities Act of 1933; or

(5) [ ] pursuant to the exemption from registration provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee shall be entitled to require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Issuer has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, such as the exemption provided by Rule 144 under such Act.

---

Signature

Signature Guarantee:

---

Signature must be guaranteed

---

Signature

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the

Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Issuer as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:
_____ _____
NOTICE: To be executed by
an executive officer

TO BE COMPLETED BY PURCHASER IF (4) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security outside the United States as a "foreign person" in compliance with Rule 904 of Regulation S under the Securities Act and is aware that the sale to it is being made in reliance on Regulation S and acknowledges that a holder of an interest in a temporary Regulation S global security may not (i) receive the payment of any distributions, redemption price or any other payments with respect to the holder's beneficial interest in the temporary global security or (ii) receive an interest in a permanent Regulation S global security until (A) expiration of the 40th day after the later of the commencement of the offering of the Securities and the closing date and (B) certification that the beneficial owner of the interest in the Security is a non-U.S. person.

Dated:
_____ _____
NOTICE: To be executed by
an executive officer



[TO BE ATTACHED TO GLOBAL SECURITIES]

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The original principal amount of this Global Security is _____. The following increases or decreases in this Global Security have been made:

| Date of Exchange | Amount of decrease in Principal amount of this Global Security | Amount of increase in Principal amount of this Global Security | Principal amount of this Global Security following such decrease or increase) | Signature of authorized officer of Trustee or Securities Custodian |
|---|---|---|---|---|



OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Issuer or the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, check the box:

[ ]

If you want to elect to have only part of this Security purchased by the Issuer or the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, state the amount in principal amount: Euro _____

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security.)

Signature Guarantee: _____

(Signature must be guaranteed)

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.



EXHIBIT A

[FORM OF FACE OF EXCHANGE SECURITY
OR PRIVATE EXCHANGE SECURITY]

*/**/

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*/ [If the Security is to be issued in global form add the Global Securities Legend from Exhibit 1 to Appendix A and the attachment from such Exhibit 1 captioned "[TO BE ATTACHED TO GLOBAL SECURITIES] - SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY".]

**/ [If the Security is a Private Exchange Security issued in a Private Exchange to an Initial Purchaser holding an unsold portion of its initial allotment, add the Restricted Securities Legend from Exhibit 1 to Appendix A and replace the Assignment Form included in this Exhibit A with the Assignment Form included in such Exhibit 1.]



No.: ISIN No.:
Common Code No.:

12-1/4% Senior Subordinated Notes Due 2010

Flowserve Finance B.V., a Netherlands besloten vennootschap with corporate seat in Amsterdam, promises to pay to The Bank of New York Depositary (Nominees) Limited, or registered assigns, the principal amount set forth on Schedule A hereto on August 15, 2010.

Interest Payment Dates: February 15 and August 15.

Record Dates: February 1 and August 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: August 8, 2000



FLOWSERVE FINANCE B.V.,

by _____

Name: John M. Nanos

Title: Managing Director

by
---
Name: M. Kathleen McVay
Title: Managing Director

FLOWSERVE CORPORATION,

by
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE RED CORPORATION,
FLOWSERVE FSD CORPORATION,
FLOWSERVE FCD CORPORATION,
FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,
INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO., INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,



INTERNATIONAL PIPING SERVICES COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA, INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN INC.,
VALVE ACTUATION & REPAIR CO.,
INGERSOLL-DRESSER PUMP COMPANY,
IDP ALTERNATE ENERGY COMPANY,
ENERGY HYDRO, INC.,
PUMP INVESTMENTS, INC.,
FLOWSERVE HOLDINGS, INC.,
IPSCO HOLDING, INC.,

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title:



TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

THE BANK OF NEW YORK,
as Trustee, certifies
that this is one of
the Securities referred
to in the Indenture.

by
---
Authorized Signatory



[FORM OF REVERSE SIDE OF [EXCHANGE SECURITY
OR PRIVATE EXCHANGE] SECURITY]

12-1/4% Senior Subordinated Notes Due 2010

1. Interest

Flowserve Finance B.V., a Netherlands besloten vennootschap with corporate seat in Amsterdam, (such besloten vennootschap, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Issuer"), promises to pay interest on the principal amount of this Security at the rate per annum shown above; provided, however, that if a Registration Default (as defined in the Registration Rights Agreement) occurs, additional interest will accrue on this Security at a rate of 0.50% per annum (increasing by an additional 0.50% per annum after each consecutive 90-day period that occurs after the date on which such Registration Default occurs up to a maximum additional interest rate of 2.00%) from and including the date on which any such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. The Issuer will pay interest semiannually on February 15 and August 15 of each year, commencing February 15, 2001. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 8, 2000. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Issuer will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

2. Method of Payment

The Issuer will pay interest on the Securities (except defaulted interest) to the Persons who are registered holders of Securities at the close of business on the February 1 or August 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Issuer will pay principal and interest in Euro or any successor money of the European Union that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Securities represented by a Global Security (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by the

Depository. The Issuer will make all payments in respect of a certificated Security (including principal, premium and interest) by mailing a check to the registered address of each Holder thereof; provided, however, that payments on a certificated Security will be made by wire transfer to a Euro account maintained by the payee with a bank in a member state of the European Union if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. Paying Agent and Registrar

Initially, (a) The Bank of New York, a New York banking corporation (the "Trustee"), will act as Trustee, U.S. Paying Agent and Registrar, and (b) Banque Internationale a Luxembourg will act as Luxembourg Paying Agent. The Issuer may appoint and change any Paying Agent, Registrar or co-registrar without notice. The Issuer or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture

The Issuer issued the Securities under an Indenture dated as of August 8, 2000 (the "Indenture"), among the Company, the Issuer, the Subsidiary Guarantors and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Section Section 77aaa-77bbbb) as in effect on the date of the Indenture (the "Act"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Issuer. The Issuer shall be entitled, subject to its compliance with Section 4.03 of the Indenture, to issue Additional Securities pursuant to Section 2.13 of the Indenture. The Initial Securities issued on the Issue Date, any Additional Securities and all Exchange Securities or Private Exchange Securities issued in exchange therefor will be treated as a single class for all purposes under the Indenture. The Indenture contains covenants that limit the ability of the Company to incur additional indebtedness; pay dividends or distributions on, or redeem or repurchase capital stock; make investments; issue or sell capital stock



of subsidiaries; engage in transactions with affiliates; transfer or sell assets; guarantee indebtedness; restrict dividends or other payments of subsidiaries; and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. The Indenture also contains covenants that limit the Issuer's ability to engage in business activities and its ability to use the proceeds from the issuance of Securities. These covenants are subject to important exceptions and qualifications.

5. Optional Redemption

Except as set forth below, the Issuer shall not be entitled to redeem the Securities at its option prior to August 15, 2005.

On and after August 15, 2005, the Issuer shall be entitled at its option to redeem all or a portion of the Securities upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 15 of the years set forth below:

| Period | Redemption Price |
|---|---|

| | |
|---|---|
| 2005 | 106.125% |
| 2006 | 104.083 |
| 2007 | 102.042 |
| 2008 and thereafter | 100.000% |

In addition, prior to August 15, 2003, the Issuer shall be entitled at its option on one or more occasions to redeem Securities (which includes Additional Securities, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Securities (which includes Additional Securities, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 112.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds contributed to the Issuer from one or more Public Equity Offerings; provided, however, that (1) at least 65% of such aggregate principal amount of Securities (which includes Additional Securities, if any) remains outstanding immediately after the occurrence of each such redemption (other than Securities held, directly or indirectly, by the Issuer or its Affiliates); and (2) each such redemption occurs within 60 days after the closing date of the related Public Equity Offering.



6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than E.1,000 principal amount may be redeemed in part but only in whole multiples of E.1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Issuer to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the related interest payment date) as provided in, and subject to the terms of, the Indenture.

8. Subordination

The Securities are subordinated to Senior Indebtedness of the Issuer, as defined in the Indenture. To the extent provided in the Indenture, Senior Indebtedness of the Issuer must be paid before the Securities may be paid. The Issuer agrees, and each Securityholder by accepting a Security agrees, to the subordination provisions contained in the Indenture and authorizes the Trustee to give it effect and appoints the Trustee as attorney-in-fact for such purpose.

9. Guaranties

The payment by the Issuer of the principal of, and premium and interest on, the Securities is fully and unconditionally guaranteed on a joint and several senior subordinated basis by each of the Company and the Subsidiary Guarantors.



10. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of E.1,000 principal amount and whole multiples of E.1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

11. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of it for all purposes.

12. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Issuer at its request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Issuer and not to the Trustee for payment.

13. Discharge and Defeasance

Subject to certain conditions, the Issuer at any time shall be entitled to terminate some or all of its obligations under the Securities and the Indenture if the Issuer deposits with the Trustee money, European Government Obligations or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

14. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture and the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a



majority in principal amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company, the Issuer, the Subsidiary Guarantors and the Trustee shall be entitled to amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to comply with Article 5 of the Indenture, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to add guarantees with respect to the Securities including Subsidiary Guaranties, or to secure the Securities, or to add additional covenants or surrender rights and powers conferred on the Company, the Issuer, the Subsidiary Guarantors, or to comply with any request of the SEC in connection with qualifying the Indenture under the Act, or to make certain changes in the subordination provisions or to make any change that does not adversely affect the rights of any Securityholder.

15. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Securities; (ii) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon acceleration or other wise, or failure by the Issuer to purchase Securities when required; (iii) failure by the Company or the Issuer, as applicable, to comply with other agreements in the Indenture or the Securities, in certain cases subject to notice and lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company, Significant Subsidiaries, Subsidiary Guarantors, or the Issuer, as applicable, if the amount accelerated (or so unpaid) exceeds $10.0 million; (v) certain events of bankruptcy or insolvency with respect to the Company, the Issuer, the Subsidiary Guarantors or the Significant subsidiaries; and (vi) certain judgments or decrees for the

payment of money in excess of $10.0 million and (vii) certain defaults with respect to the Company Guaranty or Subsidiary Guaranties. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Securities may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives indemnity or security satisfactory



to it. Subject to certain limitations, Holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in the interest of the Holders.

16. Trustee Dealings with the Issuer

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Issuer or its Affiliates and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee.

17. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Issuer, the Company, any Subsidiary Guarantor or the Trustee shall not have any liability for any obligations of the Issuer, the Company or any Subsidiary Guarantor under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

18. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

19. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).



20. CUSIP, ISIN and Common Code Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Issuer has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. To the extent such numbers have been issued, the Issuer has caused ISIN and Common Code numbers to be similarly printed on the Securities and has similarly instructed the Trustee. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

21. Holders' Compliance with Registration Rights Agreement.

Each Holder of a Security, by acceptance hereof, acknowledges and agrees to the provisions of the Registration Rights Agreement, including the obligations of the Holders with respect to a registration and the indemnification of the Issuer to the extent provided therein.

22. Governing Law.

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.



THE ISSUER WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE TO THE SECURITY HOLDER A COPY OF THE INDENTURE WHICH HAS IN IT THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO:

FLOWSERVE FINANCE B.V.
PARALLELWEG 6
ETTEN-LEUR 4870AA
THE NETHERLANDS

ATTENTION: MANAGING DIRECTOR

WITH A COPY TO:

FLOWSERVE CORPORATION
222 WEST LAS COLINAS BLVD.
SUITE 1500
IRVING, TX 75039

ATTENTION: RENEE HORNBAKER



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ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint agent to transfer this Security on the books of the Issuer. The agent may substitute another to act for him.

---

Date: _____ Your Signature: _____

---

Sign exactly as your name appears on the other side of this Security.

In connection with any transfer of any of the Securities evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act after the later of the date of original issuance

of such Securities and the last date, if any, on which such Securities were owned by the Issuer or any Affiliate of the Issuer, the undersigned confirms that such Securities are being transferred in accordance with its terms:

CHECK ONE BOX BELOW

(1) [ ] to the Issuer; or

(2) [ ] pursuant to an effective registration statement under the Securities Act of 1933; or

(3) [ ] inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each



case pursuant to and in compliance with Rule 144A under the Securities Act of 1933; or

(4) [ ] outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act of 1933 in compliance with Rule 904 under the Securities Act of 1933; or

(5) [ ] pursuant to the exemption from registration provided by Rule 144 under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Securities evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee shall be entitled to require, prior to registering any such transfer of the Securities, such legal opinions, certifications and other information as the Issuer has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, such as the exemption provided by Rule 144 under such Act.

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Signature

Signature Guarantee:

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Signature must be guaranteed

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Signature

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a

"qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Issuer as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:
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NOTICE: To be executed by
an executive officer

TO BE COMPLETED BY PURCHASER IF (4) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Security outside the United States as a "foreign person" in compliance with Rule 904 of Regulation S under the Securities Act and is aware that the sale to it is being made in reliance on Regulation S and acknowledges that a holder of an interest in a temporary Regulation S global security may not (i) receive the payment of any distributions, redemption price or any other payments with respect to the holder's beneficial interest in the temporary global security or (ii) receive an interest in a permanent Regulation S global security until (A) expiration of the 40th day after the later of the commencement of the offering of the Securities and the closing date and (B) certification that the beneficial owner of the interest in the Security is a non-U.S. person.

Dated:
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NOTICE: To be executed by
an executive officer



[TO BE ATTACHED TO GLOBAL SECURITIES]

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The original principal amount of this Global Security is . The following increases or decreases in this Global Security have been made:

| Date of Exchange | Amount of decrease in Principal amount of this Global Security | Amount of increase in Principal amount of this Global Security | Principal amount of this Global Security following such decrease or increase | Signature of authorized officer of Trustee or Securities Custodian |
|---|---|---|---|---|





OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Issuer or the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, check the box:

[ ]

If you want to elect to have only part of this Security purchased by the Issuer or the Company pursuant to Section 4.06, 4.09 or 4.10 of the Indenture, state the amount in principal amount: Euro _____

Date: Your Signature:

---------- ----------
(Sign exactly as your name
appears on the other side of
this Security.)

Signature Guarantee: ----------
(Signature must be guaranteed)

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.



EXHIBIT B-1

Form of Certification to be Given by Holder of Beneficial Interest in a Temporary Regulation S Global Security

Re: FLOWSERVE FINANCE B.V.
(the "Issuer") o% Senior Subordinated
Notes due 2010 (the "Notes")

[Morgan Guaranty Trust Company of New York,
Brussels office, as operator of the Euroclear
System][Clearstream Banking, Societe anonyme]

Securities, [CUSIP No. ][ISIN No. ]

Reference if hereby made to the Indenture dated as of o, 2000 (the "Indenture") between the Issuer and The Bank of New York, as Trustee. Capitalized terms used herein and not otherwise defined have the meanings set forth in the Indenture.

[For purposes of acquiring a beneficial interest in the Permanent Regulation S Global Security upon the expiration of the Restricted period,] [For purposes of receiving payments under the Temporary Regulation S Global Security,] the undersigned Holder of a beneficial interest in the Temporary Regulation S Global Security issued under the Indenture certifies that it is [not a U.S. Person as defined by Regulation S under][a U.S. Person who purchased the beneficial interest in the Security pursuant to an exemption from, or transfer not subject to,] the Securities Act of 1933, as amended.

We undertake to advise you promptly by telex on or prior to the date on which you intend to submit your corresponding certification relating to the Securities held by you if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certificate applies as of such date.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocable authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and for the benefit of the Initial Purchasers.



Date:

By:

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as, or as agent for, the
Holder of a beneficial
interest in the Securities
to which this certificate
relates





EXHIBIT B-2

Form of Euroclear and Clearstream Certificate

Re: FLOWSERVE FINANCE B.V.
(the "Issuer") o% Senior Subordinated
Notes due 2010 (the "Notes")

, as
Paying Agent
[address of Paying Agent]

, as
Trustee
[address of Trustee]

This is to certify that, based solely on the certifications we have received in writing, by tested telex or by electronic transmission from member organizations appearing in our records as persons being entitled to a portion of the principal amount of the Securities set forth below (our "Member Organizations") substantially to the effect set forth in the Indenture (the "Indenture") dated as of o, 2000, between the Company and The Bank of New York, as Trustee, Euro principal amount of the Securities held by us or our behalf are beneficially owned by non-U.S. person(s). Capitalized terms used herein and not otherwise defined have the meanings set forth in the Indenture. As used in this paragraph, the term "U.S. person" has the meaning given to it by Regulation S under the United States Securities Act of 1933, as amended.

We further certify that as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any interest in the Securities identified above are no longer true and cannot be relied upon as of the date hereof.

[Upon expiration of Restricted Period: We hereby acknowledge that no portion of the Temporary Regulation S Global Security shall be exchanged for an interest in the Permanent Regulation S Global Security with respect to the portion thereof for which we have not received the applicable certifications from our Member Organizations.]

[On and upon any other payment under the Temporary Regulation S Global Security: We hereby agree to hold (and return to the [ ] upon request) any payments received by us on the Temporary Regulation S Global Security with respect to the portion thereof for which we have not received the applicable certificates from our Member Organizations.]



We understand that this certification is required in connection with certain securities laws of the United States of America. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocable authorized you to produce this certification to any interested party in such proceedings.

Dated:

[MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, Brussels office, as

operator of the Euroclear System

or

CLEARSTREAM BANKING, Societe Anonyme]

By:
---
Name:
Title:

---

1. Insert dated of expiration of Restricted Period or payment date, as the case may be.

EXECUTION COPY

EXHIBIT 4.10

$290,000,000

FLOWSERVE CORPORATION

12 1/4% SENIOR SUBORDINATED NOTES DUE 2010

REGISTRATION RIGHTS AGREEMENT

August 3, 2000

Credit Suisse First Boston Corporation
Bank of America Securities Inc.
ABN AMRO Incorporated
Banc One Capital Markets, Inc.
As Representatives of the Several Purchasers, c/o
Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, New York 10010-3629

Dear Sirs:

Flowserve Corporation, a New York corporation (the "ISSUER"), proposes to issue and sell to Credit Suisse First Boston Corporation, Bank of America Securities Inc. ABN AMRO Incorporated and Banc One Capital Markets, Inc. (collectively, the "INITIAL PURCHASERS"), upon the terms set forth in a purchase agreement of even date herewith (the "PURCHASE AGREEMENT"), $290,000,000 aggregate principal amount of its 121/4% Senior Subordinated Notes due 2010 (the "INITIAL SECURITIES") to be guaranteed (the "GUARANTIES") by Flowserve RED Corporation, Flowserve FSD Corporation, Flowserve FCD Corporation, Flowserve International, Inc., Flowserve Management Company (DE Business Trust), BW/IP-New Mexico, Inc., Flowserve International, LLC, Durametallic Australia Holding Company, Flowserve Finance B.V., Flowserve International Limited, Innovative Valve Technologies, Inc., Plant Maintenance, Inc., Varco Valve, Inc., Colonial Equipment & Service Co., Inc., CECORP, Inc., DIVT Acquisition-Delaware, LLC, DIVT Subsidiary, LLC, Southern Valve Service, Inc., L.T. Koppl Industries, Inc., Koppl Company, Koppl Industrial Systems, Inc., Harley Industries, Inc., Koppl Company of Arizona, Seeley & Jones, Incorporated, GSV, Inc., IPSCO-Florida, Inc., International Piping Services Company, Cypress Industries, Inc., DALCO, LLC, Plant Specialties, Inc., Energy Maintenance, Inc., Preventive Maintenance, Inc., Production Machine Incorporated, ICE Liquidating, Inc., Valve Repair of South Carolina, Inc., The Safe Seal Company, Inc., Flickinger-Benicia Inc., Puget Investments, Inc., Steam Supply & Rubber Co., Inc., Flickinger Company, Boyden, Inc., Valve Actuation & Repair Co., Flowserve Holdings, Inc. and IPSCO Holding, Inc. (the "GUARANTORS" and, collectively with the Issuer, the "COMPANY"). The Initial Securities will be issued pursuant to an Indenture, dated as of August 8, 2000, (the "INDENTURE"), among the Issuer, the Guarantors named therein and The Bank of New York, as trustee (the "TRUSTEE"). As an inducement to the Initial Purchasers to enter into the Purchase Agreement, the Company agrees with the Initial Purchasers, for the benefit of the Initial Purchasers and the holders of the Securities (as defined below) (collectively the "HOLDERS"), as follows:

1. Registered Exchange Offer. Unless not permitted by applicable law (after the Company has complied with the ultimate paragraph of this Section 1), the Company shall prepare and, not later than 90 days (such 90th day being a "FILING DEADLINE") after the date on which the Initial Purchasers purchase the Initial Securities pursuant to the Purchase Agreement (the "CLOSING DATE"), file with the Securities and Exchange Commission (the "COMMISSION") a registration statement (the "EXCHANGE OFFER REGISTRATION STATEMENT") on an appropriate form under the Securities Act of 1933, as amended (the "SECURITIES ACT"), with respect to a proposed offer (the "REGISTERED EXCHANGE OFFER") to the Holders of Transfer Restricted Securities (as defined in Section 6 hereof), who are not

prohibited by any law or policy of the Commission from participating in the Registered Exchange Offer, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount of debt securities of the Company issued under the Indenture, identical in all material respects to the Initial Securities and registered under the Securities Act (the "EXCHANGE SECURITIES"). The Company shall use its best efforts to (i) cause such Exchange Offer Registration Statement to become effective under the Securities Act within



150 days after the Closing Date (such 150th day being an "EFFECTIVENESS DEADLINE") and (ii) keep the Exchange Offer Registration Statement effective for not less than 30 days (or longer, if required by applicable law) after the date notice of the Registered Exchange Offer is mailed to the Holders (such period being called the "EXCHANGE OFFER REGISTRATION PERIOD").

If the Company commences the Registered Exchange Offer, the Company (i) will be entitled to consummate the Registered Exchange Offer 30 days after such commencement (provided that the Company has accepted all the Initial Securities theretofore validly tendered in accordance with the terms of the Registered Exchange Offer) and (ii) will be required to consummate the Registered Exchange Offer no later than 40 days after the date on which the Exchange Offer Registration Statement is declared effective (such 40th day being the "CONSUMMATION DEADLINE").

Following the declaration of the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Registered Exchange Offer, it being the objective of such Registered Exchange Offer to enable each Holder of Transfer Restricted Securities electing to exchange the Initial Securities for Exchange Securities (assuming that such Holder is not an affiliate of the Company within the meaning of the Securities Act, acquires the Exchange Securities in the ordinary course of such Holder's business and has no arrangements with any person to participate in the distribution of the Exchange Securities and is not prohibited by any law or policy of the Commission from participating in the Registered Exchange Offer) to trade such Exchange Securities from and after their receipt without any limitations or restrictions under the Securities Act and without material restrictions under the securities laws of the several states of the United States.

The Company acknowledges that, pursuant to current interpretations by the Commission's staff of Section 5 of the Securities Act, in the absence of an applicable exemption therefrom, (i) each Holder which is a broker-dealer electing to exchange Initial Securities, acquired for its own account as a result of market making activities or other trading activities, for Exchange Securities (an "EXCHANGING DEALER"), is required to deliver a prospectus containing the information set forth in (a) Annex A hereto on the cover, (b) Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section, and (c) Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Securities received by such Exchanging Dealer pursuant to the Registered Exchange Offer and (ii) an Initial Purchaser that elects to sell Securities (as defined below) acquired in exchange for Initial Securities constituting any portion of an unsold allotment, is required to deliver a prospectus containing the information required by Items 507 or 508 of Regulation S-K under the Securities Act, as applicable, in connection with such sale.

The Company shall use its best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the prospectus contained therein, in order to permit such prospectus to be lawfully delivered by all persons subject to the prospectus delivery requirements of the Securities Act for such period of time as such persons must comply with such requirements in order to resell the Exchange Securities; provided, however, that (i) in the case where such prospectus and any amendment or supplement thereto must be delivered by an Exchanging Dealer or an Initial Purchaser, such period shall be the lesser of 180 days and the date on which all Exchanging Dealers and the Initial Purchasers have sold all Exchange Securities held by them (unless such period is extended pursuant to Section 3(j) below) and (ii) the Company shall make such prospectus and any amendment or supplement thereto available to any broker-dealer for use in connection with any resale of any Exchange Securities for a period of not less than 180 days after the consummation of the Registered Exchange Offer.

If, upon consummation of the Registered Exchange Offer, any Initial

Purchaser holds Initial Securities acquired by it as part of its initial distribution, the Company, simultaneously with the delivery of the Exchange Securities pursuant to the Registered Exchange Offer, shall issue and deliver to such Initial Purchaser upon the written request of such Initial Purchaser, in exchange (the "PRIVATE EXCHANGE") for the Initial Securities held by such Initial Purchaser, a like principal amount of debt securities of the Company issued under the Indenture and identical in all material respects to the Initial Securities (the "PRIVATE EXCHANGE SECURITIES"). The Initial Securities, the Exchange Securities and the Private Exchange Securities are herein collectively called the "SECURITIES".

In connection with the Registered Exchange Offer, the Company shall:

(a) mail to each Holder a copy of the prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(b) keep the Registered Exchange Offer open for not less than 30 days (or longer, if required by applicable law) after the date notice thereof is mailed to the Holders;





(c) utilize the services of a depositary for the Registered Exchange Offer with an address in the Borough of Manhattan, The City of New York, which may be the Trustee or an affiliate of the Trustee;

(d) permit Holders to withdraw tendered Securities at any time prior to the close of business, New York time, on the last business day on which the Registered Exchange Offer shall remain open; and

(e) otherwise comply with all applicable laws.

As soon as practicable after the close of the Registered Exchange Offer or the Private Exchange, as the case may be, the Company shall:

(x) accept for exchange all the Securities validly tendered and not withdrawn pursuant to the Registered Exchange Offer and the Private Exchange;

(y) deliver to the Trustee for cancellation all the Initial Securities so accepted for exchange; and

(z) cause the Trustee to authenticate and deliver promptly to each Holder of the Initial Securities, Exchange Securities or Private Exchange Securities, as the case may be, equal in principal amount to the Initial Securities of such Holder so accepted for exchange.

The Indenture will provide that the Exchange Securities will not be subject to the transfer restrictions set forth in the Indenture and that all the Securities will vote and consent together on all matters as one class and that none of the Securities will have the right to vote or consent as a class separate from one another on any matter.

Interest on each Exchange Security and Private Exchange Security issued pursuant to the Registered Exchange Offer and in the Private Exchange will accrue from the last interest payment date on which interest was paid on the Initial Securities surrendered in exchange therefor or, if no interest has been paid on the Initial Securities, from the date of original issue of the Initial Securities.

Each Holder participating in the Registered Exchange Offer shall be required to represent to the Company that at the time of the consummation of the Registered Exchange Offer (i) any Exchange Securities received by such Holder will be acquired in the ordinary course of business, (ii) such Holder will have no arrangements or understanding with any person to participate in the distribution of the Securities or the Exchange Securities within the meaning of the Securities Act, (iii) such Holder is not an "affiliate," as defined in Rule 405 of the Securities Act, of the Company or if it is an affiliate, such Holder

will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable, (iv) if such Holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of the Exchange Securities and (v) if such Holder is a broker-dealer, that it will receive Exchange Securities for its own account in exchange for Initial Securities that were acquired as a result of market-making activities or other trading activities and that it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities.

Notwithstanding any other provisions hereof, the Company will ensure that (i) any Exchange Offer Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Exchange Offer Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Exchange Offer Registration Statement, and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

If following the date hereof there has been announced a change in Commission policy with respect to exchange offers that in the reasonable opinion of counsel to the Company raises a substantial question as to whether the Registered Exchange Offer is permitted by applicable federal law, the Company will seek a no-action letter or other favorable decision from the Commission allowing the Company to consummate the Registered Exchange Offer. The Company will pursue the issuance of such a decision to the Commission staff level. In connection with the foregoing, the Company will take all such other actions as may be requested by the Commission or otherwise required in connection with the issuance of





such decision, including without limitation (i) participating in telephonic conferences with the Commission, (ii) delivering to the Commission staff an analysis prepared by counsel to the Company setting forth the legal bases, if any, upon which such counsel has concluded that the Registered Exchange Offer should be permitted and (iii) diligently pursuing a resolution (which need not be favorable) by the Commission staff.

2. Shelf Registration. If, (i) because of any change in law or in applicable interpretations thereof by the staff of the Commission, the Company is not permitted to effect a Registered Exchange Offer, as contemplated by Section 1 hereof, (ii) the Registered Exchange Offer is not consummated by the 180th day after the Closing Date, (iii) any Initial Purchaser so requests with respect to the Initial Securities (or the Private Exchange Securities) not eligible to be exchanged for Exchange Securities in the Registered Exchange Offer and held by it following consummation of the Registered Exchange Offer or (iv) any Holder (other than an Exchanging Dealer) is not eligible to participate in the Registered Exchange Offer or, in the case of any Holder (other than an Exchanging Dealer) that participates in the Registered Exchange Offer, such Holder does not receive freely tradeable Exchange Securities on the date of the exchange and any such Holder so requests, the Company shall take the following actions (the date on which any of the conditions described in the foregoing clauses (i) through (iv) occur, including in the case of clauses (iii) or (iv) the receipt of the required notice, being a "TRIGGER DATE"):

(a) The Company shall promptly (but in no event more than 30 days after the Trigger Date (such 30th day being a "FILING DEADLINE")) file with the Commission and thereafter use its best efforts to cause to be declared effective no later than 140 days after the Trigger Date (such 140th day being an "EFFECTIVENESS DEADLINE") a registration statement (the "SHELF REGISTRATION STATEMENT" and, together with the Exchange Offer Registration Statement, a "REGISTRATION STATEMENT") on an appropriate form under the Securities Act relating to the offer and sale of the Transfer Restricted Securities by the Holders thereof from

time to time in accordance with the methods of distribution set forth in the Shelf Registration Statement and Rule 415 under the Securities Act (hereinafter, the "SHELF REGISTRATION"); provided, however, that no Holder (other than an Initial Purchaser) shall be entitled to have the Securities held by it covered by such Shelf Registration Statement unless such Holder agrees in writing to be bound by all the provisions of this Agreement applicable to such Holder.

(b) The Company shall use its best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus included therein to be lawfully delivered by the Holders of the relevant Securities, for a period of two years (or for such longer period if extended pursuant to Section 3(j) below) from the date of its effectiveness or such shorter period that will terminate when all the Securities covered by the Shelf Registration Statement (i) have been sold pursuant thereto or (ii) are no longer restricted securities (as defined in Rule 144 under the Securities Act, or any successor rule thereof). The Company shall be deemed not to have used its best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Securities covered thereby not being able to offer and sell such Securities during that period, unless such action is required by applicable law.

(c) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause the Shelf Registration Statement and the related prospectus and any amendment or supplement thereto, as of the effective date of the Shelf Registration Statement, amendment or supplement, (i) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the Commission and (ii) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

3. Registration Procedures. In connection with any Shelf Registration contemplated by Section 2 hereof and, to the extent applicable, any Registered Exchange Offer contemplated by Section 1 hereof, the following provisions shall apply:

(a) The Company shall (i) furnish to each Initial Purchaser, prior to the filing thereof with the Commission, a copy of the Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and, in the event that an Initial Purchaser (with respect to any portion of an unsold allotment from the original offering) is participating in the Registered Exchange Offer or the Shelf Registration Statement, the Company shall use its best efforts to reflect in each such document, when so filed with the Commission, such comments as such Initial Purchaser reasonably may propose; (ii) include the information set





forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section and in Annex C hereto in the "Plan of Distribution" section of the prospectus forming a part of the Exchange Offer Registration Statement and include the information set forth in Annex D hereto in the Letter of Transmittal delivered pursuant to the Registered Exchange Offer; (iii) if requested by an Initial Purchaser, include the information required by Items 507 or 508 of Regulation S-K under the Securities Act, as applicable, in the prospectus forming a part of the Exchange Offer Registration Statement; (iv) include within the prospectus contained in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," reasonably acceptable to the Initial Purchasers, which shall contain a summary statement of the positions taken or policies made by the staff of the Commission with respect to the potential "underwriter" status of any broker-dealer that is the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of Exchange Securities received by such broker-dealer in the Registered Exchange Offer (a "PARTICIPATING BROKER-DEALER"), whether such positions or

policies have been publicly disseminated by the staff of the Commission or such positions or policies, in the reasonable judgment of the Initial Purchasers based upon advice of counsel (which may be in-house counsel), represent the prevailing views of the staff of the Commission; and (v) in the case of a Shelf Registration Statement, include the names of the Holders who propose to sell Securities pursuant to the Shelf Registration Statement as selling securityholders.

(b) The Company shall give written notice to the Initial Purchasers, the Holders of the Securities and any Participating Broker-Dealer from whom the Company has received prior written notice that it will be a Participating Broker-Dealer in the Registered Exchange Offer (which notice pursuant to clauses (ii)-(v) hereof shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made):

(i) when the Registration Statement or any amendment thereto has been filed with the Commission and when the Registration Statement or any post-effective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the Company to make changes in the Registration Statement or the prospectus in order that the Registration Statement or the prospectus do not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus, in light of the circumstances under which they were made) not misleading.

(c) The Company shall make every reasonable effort to obtain the withdrawal at the earliest possible time, of any order suspending the effectiveness of the Registration Statement.

(d) The Company shall furnish to each Holder of Securities included within the coverage of the Shelf Registration, without charge, at least one copy of the Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

(e) The Company shall deliver to each Exchanging Dealer and each Initial Purchaser, and to any other Holder who so requests, without charge, at least one copy of the Exchange Offer Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if any Initial Purchaser or any such Holder requests, all exhibits thereto (including those incorporated by reference).



(f) The Company shall, during the Shelf Registration Period, deliver to each Holder of Securities included within the coverage of the Shelf Registration, without charge, as many copies of the prospectus (including each preliminary prospectus) included in the Shelf Registration Statement and any amendment or supplement thereto as

such person may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the prospectus or any amendment or supplement thereto by each of the selling Holders of the Securities in connection with the offering and sale of the Securities covered by the prospectus, or any amendment or supplement thereto, included in the Shelf Registration Statement.

(g) The Company shall deliver to each Initial Purchaser, any Exchanging Dealer, any Participating Broker-Dealer and such other persons required to deliver a prospectus following the Registered Exchange Offer, without charge, as many copies of the final prospectus included in the Exchange Offer Registration Statement and any amendment or supplement thereto as such persons may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the prospectus or any amendment or supplement thereto by any Initial Purchaser, if necessary, any Participating Broker-Dealer and such other persons required to deliver a prospectus following the Registered Exchange Offer in connection with the offering and sale of the Exchange Securities covered by the prospectus, or any amendment or supplement thereto, included in such Exchange Offer Registration Statement.

(h) Prior to any public offering of the Securities pursuant to any Registration Statement the Company shall register or qualify or cooperate with the Holders of the Securities included therein and their respective counsel in connection with the registration or qualification of the Securities for offer and sale under the securities or "blue sky" laws of such states of the United States as any Holder of the Securities reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Securities covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action which would subject it to general service of process or to taxation in any jurisdiction where it is not then so subject.

(i) The Company shall cooperate with the Holders of the Securities to facilitate the timely preparation and delivery of certificates representing the Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and registered in such names as the Holders may request a reasonable period of time prior to sales of the Securities pursuant to such Registration Statement.

(j) Upon the occurrence of any event contemplated by paragraphs (ii) through (v) of Section 3(b) above during the period for which the Company is required to maintain an effective Registration Statement, the Company shall promptly prepare and file a post-effective amendment to the Registration Statement or a supplement to the related prospectus and any other required document so that, as thereafter delivered to Holders of the Securities or purchasers of Securities, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Initial Purchasers, the Holders of the Securities and any known Participating Broker-Dealer in accordance with paragraphs (ii) through (v) of Section 3(b) above to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Initial Purchasers, the Holders of the Securities and any such Participating Broker-Dealers shall suspend use of such prospectus, and the period of effectiveness of the Shelf Registration Statement provided for in Section 2(b) above and the Exchange Offer Registration Statement provided for in Section 1 above shall each be extended by the number of days from and including the date of the giving of such notice to and including the date when the Initial Purchasers, the Holders of the Securities and any known Participating Broker-Dealer shall have received such amended or supplemented prospectus pursuant to this Section 3(j).

(k) Not later than the effective date of the applicable Registration Statement, the Company will provide a CUSIP number for the Initial Securities, the Exchange Securities or the Private Exchange Securities, as the case may be, and provide the applicable trustee with

printed certificates for the Initial Securities, the Exchange Securities or the Private Exchange Securities, as the case may be, in a form eligible for deposit with The Depository Trust Company.

(l) The Company will comply with all rules and regulations of the Commission to the extent and so long as they are applicable to the Registered Exchange Offer or the Shelf





Registration and will make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement, which statement shall cover such 12-month period.

(m) The Company shall cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, in a timely manner and containing such changes, if any, as shall be necessary for such qualification. In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(n) The Company may require each Holder of Securities to be sold pursuant to the Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of the Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement, and the Company may exclude from such registration the Securities of any Holder that unreasonably fails to furnish such information within a reasonable time after receiving such request.

(o) The Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form) and take all such other action, if any, as any Holder of the Securities shall reasonably request in order to facilitate the disposition of the Securities pursuant to any Shelf Registration.

(p) In the case of any Shelf Registration, the Company shall (i) make reasonably available for inspection by the Holders of the Securities, any underwriter participating in any disposition pursuant to the Shelf Registration Statement and any attorney, accountant or other agent retained by the Holders of the Securities or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors, employees, accountants and auditors to supply all relevant information reasonably requested by the Holders of the Securities or any such underwriter, attorney, accountant or agent in connection with the Shelf Registration Statement, in each case, as shall be reasonably necessary to enable such persons, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that the foregoing inspection and information gathering shall be coordinated on behalf of the Initial Purchasers by you and on behalf of the other parties, by one counsel designated by and on behalf of such other parties as described in Section 4 hereof and only after execution of a confidentiality agreement satisfactory to the Company.

(q) In the case of any Shelf Registration, the Company, if requested by any Holder of Securities covered thereby, shall cause (i) its counsel to deliver an opinion relating to the Securities in customary form, subject to customary exceptions, qualifications and assumptions, addressed to such Holders and the managing underwriters, if any, thereof and dated the effective date of such Shelf Registration Statement (it being agreed that the matters to be covered by such opinion shall include, without limitation, the due incorporation and good standing of the Company and the Guarantors and its significant foreign subsidiaries; the qualification of the Company and the

Guarantors and its significant foreign subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 3(o) hereof; the due authorization, execution, authentication and issuance, and the validity and enforceability, of the applicable Securities; the absence of material legal or governmental proceedings involving the Company and its subsidiaries; the absence of governmental approvals required to be obtained in connection with the Shelf Registration Statement, the offering and sale of the applicable Securities, or any agreement of the type referred to in Section 3(o) hereof; the compliance as to form of such Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act, respectively; and, as of the date of the opinion and as of the effective date of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from such Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from any documents incorporated by reference therein of an untrue statement of a material fact or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act); (ii) its





officers to execute and deliver all customary documents and certificates and updates thereof reasonably requested by any underwriters of the applicable Securities and (iii) its independent public accountants to provide to the selling Holders of the applicable Securities and any underwriter therefor a comfort letter in customary form and covering matters of the type customarily covered in comfort letters in connection with primary underwritten offerings, subject to receipt of appropriate documentation as contemplated, and only if permitted, by Statement of Auditing Standards No. 72.

(r) In the case of the Registered Exchange Offer, if requested by any Initial Purchaser or any known Participating Broker-Dealer, the Company shall cause (i) its counsel to deliver to such Initial Purchaser or such Participating Broker-Dealer a signed opinion in the form set forth in Section 6(e) of the Purchase Agreement with such changes as are customary in connection with the preparation of a Registration Statement and (ii) its independent public accountants and the independent public accountants with respect to any other entity for which financial information is provided in the Registration Statement to deliver to such Initial Purchaser or such Participating Broker-Dealer a comfort letter, in customary form, meeting the requirements as to the substance thereof as set forth in Section 6(a), (b) and (c) of the Purchase Agreement, with appropriate date changes.

(s) If a Registered Exchange Offer or a Private Exchange is to be consummated, upon delivery of the Initial Securities by Holders to the Company (or to such other Person as directed by the Company) in exchange for the Exchange Securities or the Private Exchange Securities, as the case may be, the Company shall mark, or caused to be marked, on the Initial Securities so exchanged that such Initial Securities are being canceled in exchange for the Exchange Securities or the Private Exchange Securities, as the case may be; in no event shall the Initial Securities be marked as paid or otherwise satisfied.

(t) The Company will use its best efforts to (a) if the Initial Securities have been rated prior to the initial sale of such Initial Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Initial Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Securities covered by such Registration Statement, or by the managing underwriters, if any.

(u) In the event that any broker-dealer registered under the

Exchange Act shall underwrite any Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Conduct Rules (the "RULES") of the National Association of Securities Dealers, Inc. ("NASD")) thereof, whether as a Holder of such Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, the Company will assist such broker-dealer in complying with the requirements of such Rules, including, without limitation, by (i) if such Rules, including Rule 2720, shall so require, engaging a "qualified independent underwriter" (as defined in Rule 2720) to participate in the preparation of the Registration Statement relating to such Securities, to exercise usual standards of due diligence in respect thereto and, if any portion of the offering contemplated by such Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield of such Securities, (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 5 hereof and (iii) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules.

(v) The Company shall use its best efforts to take all other steps necessary to effect the registration of the Securities covered by a Registration Statement contemplated hereby.

4. Registration Expenses. (a) All expenses incident to the Company's performance of and compliance with this Agreement will be borne by the Company, regardless of whether a Registration Statement is ever filed or becomes effective, including without limitation;

(i) all registration and filing fees and expenses;

(ii) all fees and expenses of compliance with federal securities and state "blue sky" or securities laws;



(iii) all expenses of printing (including printing certificates for the Securities to be issued in the Registered Exchange Offer and the Private Exchange and printing of Prospectuses), messenger and delivery services and telephone;

(iv) all fees and disbursements of counsel for the Company;

(v) all application and filing fees in connection with listing the Exchange Securities on a national securities exchange or automated quotation system pursuant to the requirements hereof; and

(vi) all fees and disbursements of independent certified public accountants of the Company (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Company will bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any person, including special experts, retained by the Company.

(b) In connection with any Registration Statement required by this Agreement, the Company will reimburse the Initial Purchasers and the Holders of Transfer Restricted Securities who are tendering Initial Securities in the Registered Exchange Offer and/or selling or reselling Securities pursuant to the "Plan of Distribution" contained in the Exchange Offer Registration Statement or the Shelf Registration Statement, as applicable, for the reasonable fees and disbursements of not more than one counsel, who shall be Cravath, Swaine & Moore unless another firm shall be chosen by the Holders of a majority in principal amount of the Transfer Restricted Securities for whose benefit such Registration Statement is being prepared.

5. Indemnification. (a) The Company agrees to indemnify and hold harmless each Holder of the Securities, any Participating Broker-Dealer and each person, if any, who controls such Holder or such Participating Broker-Dealer

within the meaning of the Securities Act or the Exchange Act (each Holder, any Participating Broker-Dealer and such controlling persons are referred to collectively as the "INDEMNIFIED PARTIES") from and against any losses, claims, damages or liabilities, joint or several, or any actions in respect thereof (including, but not limited to, any losses, claims, damages, liabilities or actions relating to purchases and sales of the Securities) to which each Indemnified Party may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; provided, however, that (i) the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein and (ii) with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus relating to a Shelf Registration Statement, the indemnity agreement contained in this subsection (a) shall not inure to the benefit of any Holder or Participating Broker-Dealer from whom the person asserting any such losses, claims, damages or liabilities purchased the Securities concerned, to the extent that a prospectus relating to such Securities was required to be delivered by such Holder or Participating Broker-Dealer under the Securities Act in connection with such purchase and any such loss, claim, damage or liability of such Holder or Participating Broker-Dealer results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Securities to such person, a copy of the final prospectus if the Company had previously furnished copies thereof to such Holder or Participating Broker-Dealer; provided further, however, that this indemnity agreement will be in addition to any liability which the Company may otherwise have to such Indemnified Party. The Company shall also indemnify underwriters, their officers and directors and each person who controls such underwriters within the meaning of the Securities Act or the Exchange Act to the same extent as provided above with respect to the indemnification of the Holders of the Securities if requested by such Holders.



(b) Each Holder of the Securities, severally and not jointly, will indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which the Company or any such controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein; and, subject to the limitation set forth immediately preceding this clause, shall reimburse, as incurred, the Company for any legal or other expenses reasonably incurred by the Company or any such controlling person in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability which such Holder may otherwise have to the Company or any of its controlling persons.

(c) Promptly after receipt by an indemnified party under this Section 5 of notice of the commencement of any action or proceeding (including a

governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 5, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof the indemnifying party will not be liable to such indemnified party under this Section 5 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action, and does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 5 is unavailable or insufficient to hold harmless an indemnified party under subsections (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the exchange of the Securities, pursuant to the Registered Exchange Offer, or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding any other provision of this Section 5(d), the Holders of the Securities shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of the Securities pursuant to a Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to





contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls such indemnified party within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company.

(e) The agreements contained in this Section 5 shall survive the sale

of the Securities pursuant to a Registration Statement and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

6. Additional Interest Under Certain Circumstances. (a) Additional interest (the "ADDITIONAL INTEREST") with respect to the Securities shall be assessed as follows if any of the following events occur (each such event in clauses (i) through (iv) below being herein called a "REGISTRATION DEFAULT"):

(i) any Registration Statement required by this Agreement is not filed with the Commission on or prior to the applicable Filing Deadline;

(ii) any Registration Statement required by this Agreement is not declared effective by the Commission on or prior to the applicable Effectiveness Deadline;

(iii) the Registered Exchange Offer has not been consummated on or prior to the Consummation Deadline; or

(iv) any Registration Statement required by this Agreement has been declared effective by the Commission but (A) such Registration Statement thereafter ceases to be effective or (B) such Registration Statement or the related prospectus ceases to be usable in connection with resales of Transfer Restricted Securities during the periods specified herein because either (1) any event occurs as a result of which the related prospectus forming part of such Registration Statement would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or (2) it shall be necessary to amend such Registration Statement or supplement the related prospectus, to comply with the Securities Act or the Exchange Act or the respective rules thereunder.

Each of the foregoing will constitute a Registration Default whatever the reason for any such event and whether it is voluntary or involuntary or is beyond the control of the Company or pursuant to operation of law or as a result of any action or inaction by the Commission.

Additional Interest shall accrue on the Securities over and above the interest set forth in the title of the Securities from and including the date on which any such Registration Default shall occur to but excluding the date on which all such Registration Defaults have been cured, at a rate of 0.50% per annum (the "ADDITIONAL INTEREST RATE") for the first 90-day period immediately following the occurrence of such Registration Default. The Additional Interest Rate shall increase by an additional 0.50% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum Additional Interest Rate of 2.0% per annum.

(b) A Registration Default referred to in Section 6(a)(iv) hereof shall be deemed not to have occurred and be continuing in relation to a Shelf Registration Statement or the related prospectus if (i) such Registration Default has occurred solely as a result of (x) the filing of a post-effective amendment to such Shelf Registration Statement to incorporate annual audited financial information with respect to the Company where such post-effective amendment is not yet effective and needs to be declared effective to permit Holders to use the related prospectus or (y) other material events, with respect to the Company that would need to be described in such Shelf Registration Statement or the related prospectus and (ii) in the case of clause (y), the Company is proceeding promptly and in good faith to amend or supplement such Shelf Registration Statement and related prospectus to describe such events; provided, however, that in any case if such Registration Default occurs for a continuous period in excess of 30 days, Additional Interest shall be payable in accordance with the above paragraph from the day such Registration Default occurs until such Registration Default is cured.

(c) Any amounts of Additional Interest due pursuant to Section 6(a) will be payable in cash on the regular interest payment dates with respect to the Securities. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest Rate by the principal amount of the Securities and further multiplied by a fraction, the numerator of which is the number of days such

Additional Interest Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360.

(d) "TRANSFER RESTRICTED SECURITIES" means each Security until (i) the date on which such Security has been exchanged by a person other than a broker-dealer for a freely transferable Exchange Security in the Registered Exchange Offer, (ii) following the exchange by a broker-dealer in the Registered Exchange Offer of an Initial Security for an Exchange Note, the date on which such Exchange Note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement, (iii) the date on which such Security has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iv) the date on which such Security is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

7. Rules 144 and 144A. The Company shall use its best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any Holder of Securities, make publicly available other information so long as necessary to permit sales of their securities pursuant to Rules 144 and 144A. The Company covenants that it will take such further action as any Holder of Securities may reasonably request, all to the extent required from time to time to enable such Holder to sell Securities without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including the requirements of Rule 144A(d)(4)). The Company will provide a copy of this Agreement to prospective purchasers of Initial Securities identified to the Company by the Initial Purchasers upon request. Upon the request of any Holder of Initial Securities, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. Underwritten Registrations. If any of the Transfer Restricted Securities covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering ("MANAGING UNDERWRITERS") will be selected by the Holders of a majority in aggregate principal amount of such Transfer Restricted Securities to be included in such offering.

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

9. Miscellaneous.

(a) Remedies. The Company acknowledges and agrees that any failure by the Company to comply with its obligations under Section 1 and 2 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 1 and 2 hereof. The Company further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any agreement in effect on the date hereof.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, except by the Company and the written consent of the Holders of a majority in principal amount of the Securities affected by such amendment, modification, supplement, waiver or consents.





(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, first-class mail, facsimile transmission, or air courier which guarantees overnight delivery:

(1) if to a Holder of the Securities, at the most current address given by such Holder to the Company.

(2) if to the Initial Purchasers:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, NY 10010-3629
Fax No.: (212) 325-8278
Attention: Transactions Advisory Group

with a copy to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, NY 10019
Attention: Stephen L. Burns, Esq.

(3) if to the Company, at its address as follows:

Flowserve Corporation
222 West Las Colinas Boulevard
Irving, Texas 75039
Attention: Ronald F. Shuff, Esq.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, NY 10022
Attention: Christopher C. Paci, Esq.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged by recipient's facsimile machine operator, if sent by facsimile transmission; and on the day delivered, if sent by overnight air courier guaranteeing next day delivery.

(e) Third Party Beneficiaries. The Holders shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder.

(f) Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns.

(g) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

(j) Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of



any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) Securities Held by the Company. Whenever the consent or approval of Holders of a specified percentage of principal amount of Securities is required hereunder, Securities held by the Company or its affiliates (other than subsequent Holders of Securities if such subsequent Holders are deemed to be affiliates solely by reason of their holdings of such Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.



If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Issuer a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement among the several Initial Purchasers, the Issuer and the Guarantors in accordance with its terms.

Very truly yours,

FLOWSERVE CORPORATION

by /s/ RENEE J. HORNBAKER
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE FINANCE B.V.

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Managing Director

by /s/ M. KATHLEEN MCVAY
---
Name: M. Kathleen McVay
Title: Managing Director



Flowserve RED Corporation,
Flowserve FSD Corporation,
Flowserve FCD Corporation,
Flowserve International, Inc.,
Flowserve Management Company (DE Business Trust),
BW/IP-New Mexico, Inc.,
Flowserve International, LLC,
Durametallic Australia Holding Company,
Flowserve International Limited,

Innovative Valve Technologies, Inc.,
Plant Maintenance, Inc.,
Varco Valve, Inc.,
Colonial Equipment & Service Co., Inc.,
CECORP, Inc.,
DIVT Acquisition-Delaware, LLC,
DIVT Subsidiary, LLC,
Southern Valve Service, Inc.,
L.T. Koppl Industries, Inc.,
Koppl Company,
Koppl Industrial Systems, Inc.,
Harley Industries, Inc.,
Koppl Company of Arizona,
Seeley & Jones, Incorporated,
GSV, Inc.,
IPSCO-Florida, Inc.,
International Piping Services Company,
Cypress Industries, Inc.,
DALCO, LLC,
Plant Specialties, Inc.,
Energy Maintenance, Inc.,
Preventive Maintenance, Inc.,
Production Machine Incorporated,
ICE Liquidating, Inc.,
Valve Repair of South Carolina, Inc.,
The Safe Seal Company, Inc.,
Flickinger-Benicia Inc.,
Puget Investments, Inc.,
Steam Supply & Rubber Co., Inc.,
Flickinger Company,
Boyden, Inc.,
Valve Actuation & Repair Co.,
Flowserve Holdings, Inc.,
IPSCO Holding, Inc.,

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Senior Associate General Counsel



The foregoing Registration
Rights Agreement is hereby confirmed
and accepted as of the date first
above written.

CREDIT SUISSE FIRST BOSTON CORPORATION
BANC OF AMERICA SECURITIES INC.
ABN AMRO INCORPORATED
BANK ONE CAPITAL MARKETS, INC.

By: CREDIT SUISSE FIRST BOSTON CORPORATION

by /s/ BRENT PATRY
---
Name: Brent Patry
Title: Director



ANNEX A

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Initial Securities where such Initial Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."



ANNEX B

Each broker-dealer that receives Exchange Securities for its own account in exchange for Initial Securities, where such Initial Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. See "Plan of Distribution."



ANNEX C

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Initial Securities where such Initial Securities were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until , 199 , all dealers effecting transactions in the Exchange Securities may be required to deliver a prospectus.(1)

The Company will not receive any proceeds from any sale of Exchange Securities by broker-dealers. Exchange Securities received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Securities or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Exchange Securities. Any broker-dealer that resells Exchange Securities that were

received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Securities may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of Exchange Securities and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the Expiration Date the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the Holders of the Securities) other than commissions or concessions of any brokers or dealers and will indemnify the Holders of the Securities (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

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(1) In addition, the legend required by Item 502(e) of Regulation S-K will appear on the back cover page of the Exchange Offer prospectus.

EXHIBIT 4.11

EXECUTION COPY

E.100,000,000

FLOWSERVE FINANCE B.V.

12 1/4% SENIOR SUBORDINATED NOTES DUE 2010

REGISTRATION RIGHTS AGREEMENT

August 3, 2000

CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED ("CSFBL")
BANK OF AMERICA INTERNATIONAL LIMITED
ABN AMRO INTERNATIONAL LIMITED
FIRST CHICAGO LIMITED
As Representatives of the Several Purchasers,
CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED
ONE CABOT SQUARE
LONDON, ENGLAND E144QJ

Dear Sirs:

Flowserve Finance B.V. a Netherlands besloten vennootschap (the "ISSUER"), proposes to issue and sell to Credit Suisse First Boston (Europe) Limited ("CSFBL"), Bank of America International Limited, ABN AMRO International Limited, First Chicago Limited and (collectively, the "INITIAL PURCHASERS"), upon the terms set forth in a purchase agreement of even date herewith (the "PURCHASE AGREEMENT"), E.100,000,000 aggregate principal amount of its 12 1/4% Senior Subordinated Notes due 2010 (the "INITIAL SECURITIES") to be guaranteed (the "GUARANTIES") by and Flowserve Corporation, Flowserve RED Corporation, Flowserve FSD Corporation, Flowserve FCD Corporation, Flowserve International, Inc., Flowserve Management Company (DE Business Trust), BW/IP-New Mexico, Inc., Flowserve International, LLC, Durametallic Australia Holding Company, Flowserve International Limited, Innovative Valve Technologies, Inc., Plant Maintenance, Inc., Varco Valve, Inc., Colonial Equipment & Service Co., Inc., CECORP, Inc., DIVT Acquisition-Delaware, LLC, DIVT Subsidiary, LLC, Southern Valve Service, Inc., L.T. Koppl Industries, Inc., Koppl Company, Koppl Industrial Systems, Inc., Harley Industries, Inc., Koppl Company of Arizona, Seeley & Jones, Incorporated, GSV, Inc., IPSCO-Florida, Inc., International Piping Services Company, Cypress Industries, Inc., DALCO, LLC, Plant Specialties, Inc., Energy Maintenance, Inc., Preventive Maintenance, Inc., Production Machine Incorporated, ICE Liquidating, Inc., Valve Repair of South Carolina, Inc., The Safe Seal Company, Inc., Flickinger-Benicia Inc., Puget Investments, Inc., Steam Supply & Rubber Co., Inc., Flickinger Company, Boyden, Inc., Valve Actuation & Repair Co., Flowserve Holdings, Inc. and IPSCO Holding, Inc. (collectively, the "GUARANTORS" and, collectively with the Issuer, the "COMPANY"). The Initial Securities will be issued pursuant to an Indenture, dated as of August 8, 2000, (the "INDENTURE"), among the Issuer, the Guarantors named therein and The Bank of New York, as trustee (the "TRUSTEE"). As an inducement to the Initial Purchasers to enter into the Purchase Agreement, the Company agrees with the Initial Purchasers, for the benefit of the Initial Purchasers and the holders of the Securities (as defined below) (collectively the "HOLDERS"), as follows:

1. Registered Exchange Offer. Unless not permitted by applicable law (after the Company has complied with the ultimate paragraph of this Section 1), the Company shall prepare and, not later than 90 days (such 90th day being a "FILING DEADLINE") after the date on which the Initial Purchasers purchase the Initial Securities pursuant to the Purchase Agreement (the "CLOSING DATE"), file with the Securities and Exchange Commission (the "COMMISSION") a registration statement (the "EXCHANGE OFFER REGISTRATION STATEMENT") on an appropriate form under the Securities Act of 1933, as amended (the "SECURITIES ACT"), with respect to a proposed offer (the "REGISTERED EXCHANGE OFFER") to the Holders of Transfer Restricted Securities (as defined in Section 6 hereof), who are not

prohibited by any law or policy of the Commission from participating in the Registered Exchange Offer, to issue and deliver to such Holders, in exchange for the Initial Securities, a like aggregate principal amount of debt securities of the Company issued under the Indenture, identical in all material respects to the Initial Securities and registered under the Securities Act (the "EXCHANGE SECURITIES"). The Company shall use its best efforts to (i) cause such Exchange Offer Registration Statement to become effective under the Securities Act within



150 days after the Closing Date (such 150th day being an "EFFECTIVENESS DEADLINE") and (ii) keep the Exchange Offer Registration Statement effective for not less than 30 days (or longer, if required by applicable law) after the date notice of the Registered Exchange Offer is mailed to the Holders (such period being called the "EXCHANGE OFFER REGISTRATION PERIOD").

If the Company commences the Registered Exchange Offer, the Company (i) will be entitled to consummate the Registered Exchange Offer 30 days after such commencement (provided that the Company has accepted all the Initial Securities theretofore validly tendered in accordance with the terms of the Registered Exchange Offer) and (ii) will be required to consummate the Registered Exchange Offer no later than 40 days after the date on which the Exchange Offer Registration Statement is declared effective (such 40th day being the "CONSUMMATION DEADLINE").

Following the declaration of the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Registered Exchange Offer, it being the objective of such Registered Exchange Offer to enable each Holder of Transfer Restricted Securities electing to exchange the Initial Securities for Exchange Securities (assuming that such Holder is not an affiliate of the Company within the meaning of the Securities Act, acquires the Exchange Securities in the ordinary course of such Holder's business and has no arrangements with any person to participate in the distribution of the Exchange Securities and is not prohibited by any law or policy of the Commission from participating in the Registered Exchange Offer) to trade such Exchange Securities from and after their receipt without any limitations or restrictions under the Securities Act and without material restrictions under the securities laws of the several states of the United States.

The Company acknowledges that, pursuant to current interpretations by the Commission's staff of Section 5 of the Securities Act, in the absence of an applicable exemption therefrom, (i) each Holder which is a broker-dealer electing to exchange Initial Securities, acquired for its own account as a result of market making activities or other trading activities, for Exchange Securities (an "EXCHANGING DEALER"), is required to deliver a prospectus containing the information set forth in (a) Annex A hereto on the cover, (b) Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section, and (c) Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Securities received by such Exchanging Dealer pursuant to the Registered Exchange Offer and (ii) an Initial Purchaser that elects to sell Securities (as defined below) acquired in exchange for Initial Securities constituting any portion of an unsold allotment, is required to deliver a prospectus containing the information required by Items 507 or 508 of Regulation S-K under the Securities Act, as applicable, in connection with such sale.

The Company shall use its best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the prospectus contained therein, in order to permit such prospectus to be lawfully delivered by all persons subject to the prospectus delivery requirements of the Securities Act for such period of time as such persons must comply with such requirements in order to resell the Exchange Securities; provided, however, that (i) in the case where such prospectus and any amendment or supplement thereto must be delivered by an Exchanging Dealer or an Initial Purchaser, such period shall be the lesser of 180 days and the date on which all Exchanging Dealers and the Initial Purchasers have sold all Exchange Securities held by them (unless such period is extended pursuant to Section 3(j) below) and (ii) the Company shall make such prospectus and any amendment or supplement thereto available to any broker-dealer for use in connection with any resale of any Exchange Securities for a period of not less than 180 days after the consummation of the Registered Exchange Offer.

If, upon consummation of the Registered Exchange Offer, any Initial Purchaser holds Initial Securities acquired by it as part of its initial distribution, the Company, simultaneously with the delivery of the Exchange Securities pursuant to the Registered Exchange Offer, shall issue and deliver to such Initial Purchaser upon the written request of such Initial Purchaser, in exchange (the "PRIVATE EXCHANGE") for the Initial Securities held by such Initial Purchaser, a like principal amount of debt securities of the Company issued under the Indenture and identical in all material respects to the Initial Securities (the "PRIVATE EXCHANGE SECURITIES"). The Initial Securities, the Exchange Securities and the Private Exchange Securities are herein collectively called the "SECURITIES".

In connection with the Registered Exchange Offer, the Company shall:

(a) mail to each Holder a copy of the prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(b) keep the Registered Exchange Offer open for not less than 30 days (or longer, if required by applicable law) after the date notice thereof is mailed to the Holders;



(c) utilize the services of a depositary for the Registered Exchange Offer with an address in the Borough of Manhattan, The City of New York, which may be the Trustee or an affiliate of the Trustee;

(d) permit Holders to withdraw tendered Securities at any time prior to the close of business, New York time, on the last business day on which the Registered Exchange Offer shall remain open; and

(e) otherwise comply with all applicable laws.

As soon as practicable after the close of the Registered Exchange Offer or the Private Exchange, as the case may be, the Company shall:

(x) accept for exchange all the Securities validly tendered and not withdrawn pursuant to the Registered Exchange Offer and the Private Exchange;

(y) deliver to the Trustee for cancellation all the Initial Securities so accepted for exchange; and

(z) cause the Trustee to authenticate and deliver promptly to each Holder of the Initial Securities, Exchange Securities or Private Exchange Securities, as the case may be, equal in principal amount to the Initial Securities of such Holder so accepted for exchange.

The Indenture will provide that the Exchange Securities will not be subject to the transfer restrictions set forth in the Indenture and that all the Securities will vote and consent together on all matters as one class and that none of the Securities will have the right to vote or consent as a class separate from one another on any matter.

Interest on each Exchange Security and Private Exchange Security issued pursuant to the Registered Exchange Offer and in the Private Exchange will accrue from the last interest payment date on which interest was paid on the Initial Securities surrendered in exchange therefor or, if no interest has been paid on the Initial Securities, from the date of original issue of the Initial Securities.

Each Holder participating in the Registered Exchange Offer shall be required to represent to the Company that at the time of the consummation of the Registered Exchange Offer (i) any Exchange Securities received by such Holder will be acquired in the ordinary course of business, (ii) such Holder will have no arrangements or understanding with any person to participate in the distribution of the Securities or the Exchange Securities within the meaning of the Securities Act, (iii) such Holder is not an "affiliate," as defined in Rule 405 of the Securities Act, of the Company or if it is an affiliate, such Holder will comply with the registration and prospectus delivery requirements of the

Securities Act to the extent applicable, (iv) if such Holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of the Exchange Securities and (v) if such Holder is a broker-dealer, that it will receive Exchange Securities for its own account in exchange for Initial Securities that were acquired as a result of market-making activities or other trading activities and that it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities.

Notwithstanding any other provisions hereof, the Company will ensure that (i) any Exchange Offer Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Exchange Offer Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Exchange Offer Registration Statement, and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

If following the date hereof there has been announced a change in Commission policy with respect to exchange offers that in the reasonable opinion of counsel to the Company raises a substantial question as to whether the Registered Exchange Offer is permitted by applicable federal law, the Company will seek a no-action letter or other favorable decision from the Commission allowing the Company to consummate the Registered Exchange Offer. The Company will pursue the issuance of such a decision to the Commission staff level. In connection with the foregoing, the Company will take all such other actions as may be requested by the Commission or otherwise required in connection with the issuance of





such decision, including without limitation (i) participating in telephonic conferences with the Commission, (ii) delivering to the Commission staff an analysis prepared by counsel to the Company setting forth the legal bases, if any, upon which such counsel has concluded that the Registered Exchange Offer should be permitted and (iii) diligently pursuing a resolution (which need not be favorable) by the Commission staff.

2. Shelf Registration. If, (i) because of any change in law or in applicable interpretations thereof by the staff of the Commission, the Company is not permitted to effect a Registered Exchange Offer, as contemplated by Section 1 hereof, (ii) the Registered Exchange Offer is not consummated by the 180th day after the Closing Date, (iii) any Initial Purchaser so requests with respect to the Initial Securities (or the Private Exchange Securities) not eligible to be exchanged for Exchange Securities in the Registered Exchange Offer and held by it following consummation of the Registered Exchange Offer or (iv) any Holder (other than an Exchanging Dealer) is not eligible to participate in the Registered Exchange Offer or, in the case of any Holder (other than an Exchanging Dealer) that participates in the Registered Exchange Offer, such Holder does not receive freely tradeable Exchange Securities on the date of the exchange and any such Holder so requests, the Company shall take the following actions (the date on which any of the conditions described in the foregoing clauses (i) through (iv) occur, including in the case of clauses (iii) or (iv) the receipt of the required notice, being a "TRIGGER DATE"):

(a) The Company shall promptly (but in no event more than 30 days after the Trigger Date (such 30th day being a "FILING DEADLINE")) file with the Commission and thereafter use its best efforts to cause to be declared effective no later than 140 days after the Trigger Date (such 140th day being an "EFFECTIVENESS DEADLINE") a registration statement (the "SHELF REGISTRATION STATEMENT" and, together with the Exchange Offer Registration Statement, a "REGISTRATION STATEMENT") on an appropriate form under the Securities Act relating to the offer and sale of the Transfer Restricted Securities by the Holders thereof from time to time in accordance with the methods of distribution set forth in the Shelf Registration Statement and Rule 415 under the Securities

Act (hereinafter, the "SHELF REGISTRATION"); provided, however, that no Holder (other than an Initial Purchaser) shall be entitled to have the Securities held by it covered by such Shelf Registration Statement unless such Holder agrees in writing to be bound by all the provisions of this Agreement applicable to such Holder.

(b) The Company shall use its best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus included therein to be lawfully delivered by the Holders of the relevant Securities, for a period of two years (or for such longer period if extended pursuant to Section 3(j) below) from the date of its effectiveness or such shorter period that will terminate when all the Securities covered by the Shelf Registration Statement (i) have been sold pursuant thereto or (ii) are no longer restricted securities (as defined in Rule 144 under the Securities Act, or any successor rule thereof). The Company shall be deemed not to have used its best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Securities covered thereby not being able to offer and sell such Securities during that period, unless such action is required by applicable law.

(c) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause the Shelf Registration Statement and the related prospectus and any amendment or supplement thereto, as of the effective date of the Shelf Registration Statement, amendment or supplement, (i) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the Commission and (ii) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

3. Registration Procedures. In connection with any Shelf Registration contemplated by Section 2 hereof and, to the extent applicable, any Registered Exchange Offer contemplated by Section 1 hereof, the following provisions shall apply:

(a) The Company shall (i) furnish to each Initial Purchaser, prior to the filing thereof with the Commission, a copy of the Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and, in the event that an Initial Purchaser (with respect to any portion of an unsold allotment from the original offering) is participating in the Registered Exchange Offer or the Shelf Registration Statement, the Company shall use its best efforts to reflect in each such document, when so filed with the Commission, such comments as such Initial Purchaser reasonably may propose; (ii) include the information set





forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section and in Annex C hereto in the "Plan of Distribution" section of the prospectus forming a part of the Exchange Offer Registration Statement and include the information set forth in Annex D hereto in the Letter of Transmittal delivered pursuant to the Registered Exchange Offer; (iii) if requested by an Initial Purchaser, include the information required by Items 507 or 508 of Regulation S-K under the Securities Act, as applicable, in the prospectus forming a part of the Exchange Offer Registration Statement; (iv) include within the prospectus contained in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," reasonably acceptable to the Initial Purchasers, which shall contain a summary statement of the positions taken or policies made by the staff of the Commission with respect to the potential "underwriter" status of any broker-dealer that is the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of Exchange Securities received by such broker-dealer in the Registered Exchange Offer (a "PARTICIPATING BROKER-DEALER"), whether such positions or policies have been publicly disseminated by the staff of the Commission

or such positions or policies, in the reasonable judgment of the Initial Purchasers based upon advice of counsel (which may be in-house counsel), represent the prevailing views of the staff of the Commission; and (v) in the case of a Shelf Registration Statement, include the names of the Holders who propose to sell Securities pursuant to the Shelf Registration Statement as selling securityholders.

(b) The Company shall give written notice to the Initial Purchasers, the Holders of the Securities and any Participating Broker-Dealer from whom the Company has received prior written notice that it will be a Participating Broker-Dealer in the Registered Exchange Offer (which notice pursuant to clauses (ii)-(v) hereof shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made):

(i) when the Registration Statement or any amendment thereto has been filed with the Commission and when the Registration Statement or any post-effective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the Company to make changes in the Registration Statement or the prospectus in order that the Registration Statement or the prospectus do not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus, in light of the circumstances under which they were made) not misleading.

(c) The Company shall make every reasonable effort to obtain the withdrawal at the earliest possible time, of any order suspending the effectiveness of the Registration Statement.

(d) The Company shall furnish to each Holder of Securities included within the coverage of the Shelf Registration, without charge, at least one copy of the Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

(e) The Company shall deliver to each Exchanging Dealer and each Initial Purchaser, and to any other Holder who so requests, without charge, at least one copy of the Exchange Offer Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if any Initial Purchaser or any such Holder requests, all exhibits thereto (including those incorporated by reference).



(f) The Company shall, during the Shelf Registration Period, deliver to each Holder of Securities included within the coverage of the Shelf Registration, without charge, as many copies of the prospectus (including each preliminary prospectus) included in the Shelf Registration Statement and any amendment or supplement thereto as

such person may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the prospectus or any amendment or supplement thereto by each of the selling Holders of the Securities in connection with the offering and sale of the Securities covered by the prospectus, or any amendment or supplement thereto, included in the Shelf Registration Statement.

(g) The Company shall deliver to each Initial Purchaser, any Exchanging Dealer, any Participating Broker-Dealer and such other persons required to deliver a prospectus following the Registered Exchange Offer, without charge, as many copies of the final prospectus included in the Exchange Offer Registration Statement and any amendment or supplement thereto as such persons may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the prospectus or any amendment or supplement thereto by any Initial Purchaser, if necessary, any Participating Broker-Dealer and such other persons required to deliver a prospectus following the Registered Exchange Offer in connection with the offering and sale of the Exchange Securities covered by the prospectus, or any amendment or supplement thereto, included in such Exchange Offer Registration Statement.

(h) Prior to any public offering of the Securities pursuant to any Registration Statement the Company shall register or qualify or cooperate with the Holders of the Securities included therein and their respective counsel in connection with the registration or qualification of the Securities for offer and sale under the securities or "blue sky" laws of such states of the United States as any Holder of the Securities reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Securities covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action which would subject it to general service of process or to taxation in any jurisdiction where it is not then so subject.

(i) The Company shall cooperate with the Holders of the Securities to facilitate the timely preparation and delivery of certificates representing the Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and registered in such names as the Holders may request a reasonable period of time prior to sales of the Securities pursuant to such Registration Statement.

(j) Upon the occurrence of any event contemplated by paragraphs (ii) through (v) of Section 3(b) above during the period for which the Company is required to maintain an effective Registration Statement, the Company shall promptly prepare and file a post-effective amendment to the Registration Statement or a supplement to the related prospectus and any other required document so that, as thereafter delivered to Holders of the Securities or purchasers of Securities, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Initial Purchasers, the Holders of the Securities and any known Participating Broker-Dealer in accordance with paragraphs (ii) through (v) of Section 3(b) above to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Initial Purchasers, the Holders of the Securities and any such Participating Broker-Dealers shall suspend use of such prospectus, and the period of effectiveness of the Shelf Registration Statement provided for in Section 2(b) above and the Exchange Offer Registration Statement provided for in Section 1 above shall each be extended by the number of days from and including the date of the giving of such notice to and including the date when the Initial Purchasers, the Holders of the Securities and any known Participating Broker-Dealer shall have received such amended or supplemented prospectus pursuant to this Section 3(j).

(k) Not later than the effective date of the applicable Registration Statement, the Company will provide a CUSIP number for the Initial Securities, the Exchange Securities or the Private Exchange Securities, as the case may be, and provide the applicable trustee with

printed certificates for the Initial Securities, the Exchange Securities or the Private Exchange Securities, as the case may be, in a form eligible for deposit with The Depository Trust Company.

(l) The Company will comply with all rules and regulations of the Commission to the extent and so long as they are applicable to the Registered Exchange Offer or the Shelf





Registration and will make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement, which statement shall cover such 12-month period.

(m) The Company shall cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, in a timely manner and containing such changes, if any, as shall be necessary for such qualification. In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(n) The Company may require each Holder of Securities to be sold pursuant to the Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of the Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement, and the Company may exclude from such registration the Securities of any Holder that unreasonably fails to furnish such information within a reasonable time after receiving such request.

(o) The Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form) and take all such other action, if any, as any Holder of the Securities shall reasonably request in order to facilitate the disposition of the Securities pursuant to any Shelf Registration.

(p) In the case of any Shelf Registration, the Company shall (i) make reasonably available for inspection by the Holders of the Securities, any underwriter participating in any disposition pursuant to the Shelf Registration Statement and any attorney, accountant or other agent retained by the Holders of the Securities or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors, employees, accountants and auditors to supply all relevant information reasonably requested by the Holders of the Securities or any such underwriter, attorney, accountant or agent in connection with the Shelf Registration Statement, in each case, as shall be reasonably necessary to enable such persons, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that the foregoing inspection and information gathering shall be coordinated on behalf of the Initial Purchasers by you and on behalf of the other parties, by one counsel designated by and on behalf of such other parties as described in Section 4 hereof and only after execution of a confidentiality agreement satisfactory to the Company.

(q) In the case of any Shelf Registration, the Company, if requested by any Holder of Securities covered thereby, shall cause (i) its counsel to deliver an opinion relating to the Securities in customary form, subject to customary exceptions, qualifications and assumptions, addressed to such Holders and the managing underwriters, if any, thereof and dated, the effective date of such Shelf Registration Statement (it being agreed that the matters to be covered by such opinion shall include, without limitation, the due incorporation and good standing of the Company and the Guarantors and

its significant foreign subsidiaries; the qualification of the Company and the Guarantors and its significant foreign subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 3(o) hereof; the due authorization, execution, authentication and issuance, and the validity and enforceability, of the applicable Securities; the absence of material legal or governmental proceedings involving the Company and its subsidiaries; the absence of governmental approvals required to be obtained in connection with the Shelf Registration Statement, the offering and sale of the applicable Securities, or any agreement of the type referred to in Section 3(o) hereof; the compliance as to form of such Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act, respectively; and, as of the date of the opinion and as of the effective date of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from such Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from any documents incorporated by reference therein of an untrue statement of a material fact or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act); (ii) its





officers to execute and deliver all customary documents and certificates and updates thereof reasonably requested by any underwriters of the applicable Securities and (iii) its independent public accountants to provide to the selling Holders of the applicable Securities and any underwriter therefor a comfort letter in customary form and covering matters of the type customarily covered in comfort letters in connection with primary underwritten offerings, subject to receipt of appropriate documentation as contemplated, and only if permitted, by Statement of Auditing Standards No. 72.

(r) In the case of the Registered Exchange Offer, if requested by any Initial Purchaser or any known Participating Broker-Dealer, the Company shall cause (i) its counsel to deliver to such Initial Purchaser or such Participating Broker-Dealer a signed opinion in the form set forth in Section 6(e) of the Purchase Agreement with such changes as are customary in connection with the preparation of a Registration Statement and (ii) its independent public accountants and the independent public accountants with respect to any other entity for which financial information is provided in the Registration Statement to deliver to such Initial Purchaser or such Participating Broker-Dealer a comfort letter, in customary form, meeting the requirements as to the substance thereof as set forth in Section 6(a), (b) and (c) of the Purchase Agreement, with appropriate date changes.

(s) If a Registered Exchange Offer or a Private Exchange is to be consummated, upon delivery of the Initial Securities by Holders to the Company (or to such other Person as directed by the Company) in exchange for the Exchange Securities or the Private Exchange Securities, as the case may be, the Company shall mark, or caused to be marked, on the Initial Securities so exchanged that such Initial Securities are being canceled in exchange for the Exchange Securities or the Private Exchange Securities, as the case may be; in no event shall the Initial Securities be marked as paid or otherwise satisfied.

(t) The Company will use its best efforts to (a) if the Initial Securities have been rated prior to the initial sale of such Initial Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Initial Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Securities covered by such Registration Statement, or by the managing underwriters, if any.

(u) In the event that any broker-dealer registered under the Exchange Act shall underwrite any Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Conduct Rules (the "RULES") of the National Association of Securities Dealers, Inc. ("NASD")) thereof, whether as a Holder of such Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, the Company will assist such broker-dealer in complying with the requirements of such Rules, including, without limitation, by (i) if such Rules, including Rule 2720, shall so require, engaging a "qualified independent underwriter" (as defined in Rule 2720) to participate in the preparation of the Registration Statement relating to such Securities, to exercise usual standards of due diligence in respect thereto and, if any portion of the offering contemplated by such Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield of such Securities, (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 5 hereof and (iii) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules.

(v) The Company shall use its best efforts to take all other steps necessary to effect the registration of the Securities covered by a Registration Statement contemplated hereby.

4. Registration Expenses. (a) All expenses incident to the Company's performance of and compliance with this Agreement will be borne by the Company, regardless of whether a Registration Statement is ever filed or becomes effective, including without limitation;

(i) all registration and filing fees and expenses;

(ii) all fees and expenses of compliance with federal securities and state "blue sky" or securities laws;



(iii) all expenses of printing (including printing certificates for the Securities to be issued in the Registered Exchange Offer and the Private Exchange and printing of Prospectuses), messenger and delivery services and telephone;

(iv) all fees and disbursements of counsel for the Company;

(v) all application and filing fees in connection with listing the Exchange Securities on a national securities exchange or automated quotation system pursuant to the requirements hereof; and

(vi) all fees and disbursements of independent certified public accountants of the Company (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Company will bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any person, including special experts, retained by the Company.

(b) In connection with any Registration Statement required by this Agreement, the Company will reimburse the Initial Purchasers and the Holders of Transfer Restricted Securities who are tendering Initial Securities in the Registered Exchange Offer and/or selling or reselling Securities pursuant to the "Plan of Distribution" contained in the Exchange Offer Registration Statement or the Shelf Registration Statement, as applicable, for the reasonable fees and disbursements of not more than one counsel, who shall be Cravath, Swaine & Moore unless another firm shall be chosen by the Holders of a majority in principal amount of the Transfer Restricted Securities for whose benefit such Registration Statement is being prepared.

5. Indemnification. (a) The Company agrees to indemnify and hold harmless each Holder of the Securities, any Participating Broker-Dealer and each person, if any, who controls such Holder or such Participating Broker-Dealer within the meaning of the Securities Act or the Exchange Act (each Holder, any Participating Broker-Dealer and such controlling persons are referred to collectively as the "INDEMNIFIED PARTIES") from and against any losses, claims, damages or liabilities, joint or several, or any actions in respect thereof (including, but not limited to, any losses, claims, damages, liabilities or actions relating to purchases and sales of the Securities) to which each Indemnified Party may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; provided, however, that (i) the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein and (ii) with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus relating to a Shelf Registration Statement, the indemnity agreement contained in this subsection (a) shall not inure to the benefit of any Holder or Participating Broker-Dealer from whom the person asserting any such losses, claims, damages or liabilities purchased the Securities concerned, to the extent that a prospectus relating to such Securities was required to be delivered by such Holder or Participating Broker-Dealer under the Securities Act in connection with such purchase and any such loss, claim, damage or liability of such Holder or Participating Broker-Dealer results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Securities to such person, a copy of the final prospectus if the Company had previously furnished copies thereof to such Holder or Participating Broker-Dealer; provided further, however, that this indemnity agreement will be in addition to any liability which the Company may otherwise have to such Indemnified Party. The Company shall also indemnify underwriters, their officers and directors and each person who controls such underwriters within the meaning of the Securities Act or the Exchange Act to the same extent as provided above with respect to the indemnification of the Holders of the Securities if requested by such Holders.





(b) Each Holder of the Securities, severally and not jointly, will indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which the Company or any such controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein; and, subject to the limitation set forth immediately preceding this clause, shall reimburse, as incurred, the Company for any legal or other expenses reasonably incurred by the Company or any such controlling person in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability which such Holder may

otherwise have to the Company or any of its controlling persons.

(c) Promptly after receipt by an indemnified party under this Section 5 of notice of the commencement of any action or proceeding (including a governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 5, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof the indemnifying party will not be liable to such indemnified party under this Section 5 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action, and does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 5 is unavailable or insufficient to hold harmless an indemnified party under subsections (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the exchange of the Securities, pursuant to the Registered Exchange Offer, or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding any other provision of this Section 5(d), the Holders of the Securities shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of the Securities pursuant to a Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to





contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls such indemnified party within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such indemnified

party and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company.

(e) The agreements contained in this Section 5 shall survive the sale of the Securities pursuant to a Registration Statement and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

6. Additional Interest Under Certain Circumstances. (a) Additional interest (the "ADDITIONAL INTEREST") with respect to the Securities shall be assessed as follows if any of the following events occur (each such event in clauses (i) through (iv) below being herein called a "REGISTRATION DEFAULT"):

(i) any Registration Statement required by this Agreement is not filed with the Commission on or prior to the applicable Filing Deadline;

(ii) any Registration Statement required by this Agreement is not declared effective by the Commission on or prior to the applicable Effectiveness Deadline;

(iii) the Registered Exchange Offer has not been consummated on or prior to the Consummation Deadline; or

(iv) any Registration Statement required by this Agreement has been declared effective by the Commission but (A) such Registration Statement thereafter ceases to be effective or (B) such Registration Statement or the related prospectus ceases to be usable in connection with resales of Transfer Restricted Securities during the periods specified herein because either (1) any event occurs as a result of which the related prospectus forming part of such Registration Statement would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or (2) it shall be necessary to amend such Registration Statement or supplement the related prospectus, to comply with the Securities Act or the Exchange Act or the respective rules thereunder.

Each of the foregoing will constitute a Registration Default whatever the reason for any such event and whether it is voluntary or involuntary or is beyond the control of the Company or pursuant to operation of law or as a result of any action or inaction by the Commission.

Additional Interest shall accrue on the Securities over and above the interest set forth in the title of the Securities from and including the date on which any such Registration Default shall occur to but excluding the date on which all such Registration Defaults have been cured, at a rate of 0.50% per annum (the "ADDITIONAL INTEREST RATE") for the first 90-day period immediately following the occurrence of such Registration Default. The Additional Interest Rate shall increase by an additional 0.50% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum Additional Interest Rate of 2.0% per annum.

(b) A Registration Default referred to in Section 6(a)(iv) hereof shall be deemed not to have occurred and be continuing in relation to a Shelf Registration Statement or the related prospectus if (i) such Registration Default has occurred solely as a result of (x) the filing of a post-effective amendment to such Shelf Registration Statement to incorporate annual audited financial information with respect to the Company where such post-effective amendment is not yet effective and needs to be declared effective to permit Holders to use the related prospectus or (y) other material events, with respect to the Company that would need to be described in such Shelf Registration Statement or the related prospectus and (ii) in the case of clause (y), the Company is proceeding promptly and in good faith to amend or supplement such Shelf Registration Statement and related prospectus to describe such events; provided, however, that in any case if such Registration Default occurs for a continuous period in excess of 30 days, Additional Interest shall be payable in accordance with the above paragraph from the day such Registration Default occurs until such Registration Default is cured.

(c) Any amounts of Additional Interest due pursuant to Section 6(a) will be payable in cash on the regular interest payment dates with respect to

the Securities. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest Rate by the principal amount of the Securities and further multiplied by a fraction, the numerator of which is the number of days such



Additional Interest Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360.

(d) "TRANSFER RESTRICTED SECURITIES" means each Security until (i) the date on which such Security has been exchanged by a person other than a broker-dealer for a freely transferable Exchange Security in the Registered Exchange Offer, (ii) following the exchange by a broker-dealer in the Registered Exchange Offer of an Initial Security for an Exchange Note, the date on which such Exchange Note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement, (iii) the date on which such Security has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iv) the date on which such Security is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

7. Rules 144 and 144A. The Company shall use its best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any Holder of Securities, make publicly available other information so long as necessary to permit sales of their securities pursuant to Rules 144 and 144A. The Company covenants that it will take such further action as any Holder of Securities may reasonably request, all to the extent required from time to time to enable such Holder to sell Securities without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including the requirements of Rule 144A(d)(4)). The Company will provide a copy of this Agreement to prospective purchasers of Initial Securities identified to the Company by the Initial Purchasers upon request. Upon the request of any Holder of Initial Securities, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. Underwritten Registrations. If any of the Transfer Restricted Securities covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering ("MANAGING UNDERWRITERS") will be selected by the Holders of a majority in aggregate principal amount of such Transfer Restricted Securities to be included in such offering.

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

9. Miscellaneous.

(a) Remedies. The Company acknowledges and agrees that any failure by the Company to comply with its obligations under Section 1 and 2 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 1 and 2 hereof. The Company further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities

that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any agreement in effect on the date hereof.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, except by the Company and the written consent of the Holders of a majority in principal amount of the Securities affected by such amendment, modification, supplement, waiver or consents.





(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, first-class mail, facsimile transmission, or air courier which guarantees overnight delivery:

(1) if to a Holder of the Securities, at the most current address given by such Holder to the Company.

(2) if to the Initial Purchasers:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, NY 10010-3629
Fax No.: (212) 325-8278
Attention: Transactions Advisory Group

with a copy to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, NY 10019
Attention: Stephen L. Burns, Esq.

(3) if to the Company, at its address as follows:

Flowserve Corporation
222 West Las Colinas Boulevard
Irving, Texas 75039
Attention: Ronald F. Shuff, Esq.

with a copy to:

Shearman & Sterling
599 Lexington Avenue
New York, NY 10022
Attention: Christopher C. Paci, Esq.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged by recipient's facsimile machine operator, if sent by facsimile transmission; and on the day delivered, if sent by overnight air courier guaranteeing next day delivery.

(e) Third Party Beneficiaries. The Holders shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder.

(f) Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns.

(g) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

(j) Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of





any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) Securities Held by the Company. Whenever the consent or approval of Holders of a specified percentage of principal amount of Securities is required hereunder, Securities held by the Company or its affiliates (other than subsequent Holders of Securities if such subsequent Holders are deemed to be affiliates solely by reason of their holdings of such Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Issuer a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement among the several Initial Purchasers, the Issuer and the Guarantors in accordance with its terms.

Very truly yours,

FLOWSERVE CORPORATION

by /s/ RENEE J. HORNBAKER
---
Name: Renee J. Hornbaker
Title: Vice President and Chief Financial Officer

FLOWSERVE FINANCE B.V.

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Managing Director

by /s/ M. KATHLEEN MCVAY
---
Name: M. Kathleen McVay
Title: Managing Director



FLOWSERVE RED CORPORATION, FLOWSERVE FSD CORPORATION, FLOWSERVE FCD CORPORATION, FLOWSERVE INTERNATIONAL, INC.,
FLOWSERVE MANAGEMENT COMPANY (DE BUSINESS TRUST),
BW/IP-NEW MEXICO, INC.,
FLOWSERVE INTERNATIONAL, LLC,
DURAMETALLIC AUSTRALIA HOLDING COMPANY,
FLOWSERVE INTERNATIONAL LIMITED,

INNOVATIVE VALVE TECHNOLOGIES, INC.,
PLANT MAINTENANCE, INC.,
VARCO VALVE, INC.,
COLONIAL EQUIPMENT & SERVICE CO., INC.,
CECORP, INC.,
DIVT ACQUISITION-DELAWARE, LLC,
DIVT SUBSIDIARY, LLC,
SOUTHERN VALVE SERVICE, INC.,
L.T. KOPPL INDUSTRIES, INC.,
KOPPL COMPANY,
KOPPL INDUSTRIAL SYSTEMS, INC.,
HARLEY INDUSTRIES, INC.,
KOPPL COMPANY OF ARIZONA,
SEELEY & JONES, INCORPORATED,
GSV, INC.,
IPSCO-FLORIDA, INC.,
INTERNATIONAL PIPING SERVICES COMPANY,
CYPRESS INDUSTRIES, INC.,
DALCO, LLC,
PLANT SPECIALTIES, INC.,
ENERGY MAINTENANCE, INC.,
PREVENTIVE MAINTENANCE, INC.,
PRODUCTION MACHINE INCORPORATED,
ICE LIQUIDATING, INC.,
VALVE REPAIR OF SOUTH CAROLINA, INC.,
THE SAFE SEAL COMPANY, INC.,
FLICKINGER-BENICIA INC.,
PUGET INVESTMENTS, INC.,
STEAM SUPPLY & RUBBER CO., INC.,
FLICKINGER COMPANY,
BOYDEN, INC.,
VALVE ACTUATION & REPAIR CO.
FLOWSERVE HOLDINGS, INC.
IPSCO HOLDING, INC.

by /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title:



The foregoing Registration Rights Agreement is hereby confirmed and accepted as of the date first above written.

CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED
BANK OF AMERICA INTERNATIONAL LIMITED
ABN AMRO BANK N.V.
FIRST CHICAGO LIMITED
As Representatives of the Several Euro Notes Purchasers,

By: CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED

by /s/ ISABEL SARAGALLI
---
Name: Isabel Saragalli
Title:



ANNEX A

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the

meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Initial Securities where such Initial Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."



ANNEX B

Each broker-dealer that receives Exchange Securities for its own account in exchange for Initial Securities, where such Initial Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. See "Plan of Distribution."



ANNEX C

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Initial Securities where such Initial Securities were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until , 199 , all dealers effecting transactions in the Exchange Securities may be required to deliver a prospectus.(1)

The Company will not receive any proceeds from any sale of Exchange Securities by broker-dealers. Exchange Securities received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Securities or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Exchange Securities. Any broker-dealer that resells Exchange Securities that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Securities may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of Exchange Securities and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the Expiration Date the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the Holders of the Securities) other than commissions or concessions of any brokers or dealers and will indemnify the Holders of the Securities (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

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(1) In addition, the legend required by Item 502(e) of Regulation S-K will appear on the back cover page of the Exchange Offer prospectus.



ANNEX D

[ ] CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name:
Address:

If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of Exchange Securities. If the undersigned is a broker-dealer that will receive Exchange Securities for its own account in exchange for Initial Securities that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such Exchange Securities; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

CONFORMED COPY

EXHIBIT 10.45

# CREDIT AGREEMENT

dated as of August 8, 2000,

among

FLOWSERVE CORPORATION,

THE LENDERS NAMED HEREIN,

CREDIT SUISSE FIRST BOSTON,

as Syndication Agent

and

BANK OF AMERICA, N.A.,

as Administrative Agent, Swingline Lender
and Collateral Agent

---

CREDIT SUISSE FIRST BOSTON

Joint Lead Book Manager and Joint Lead Arranger

BANK OF AMERICA, N.A.

Joint Lead Book Manager

BANC OF AMERICA SECURITIES LLC

Joint Lead Arranger

ABN AMRO BANK N.V.,

BANK ONE, NA

and

SALOMON SMITH BARNEY INC.

Co-Documentation Agents

[CS&M Ref. No. 2163-598]



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SCHEDULES:







EXHIBITS:





CREDIT AGREEMENT dated as of August 8, 2000, among FLOWSERVE CORPORATION, a New York corporation (the "Borrower"), the Lenders (as defined in Article I), CREDIT SUISSE FIRST BOSTON, a bank organized

under the laws of Switzerland, acting through its New York branch ("CSFB"), as syndication agent (the "Syndication Agent"), and BANK OF AMERICA, N.A., a national banking association ("BofA"), as swingline lender (in such capacity, the "Swingline Lender"), as administrative agent (in such capacity, the "Administrative Agent") and as collateral agent (in such capacity, the "Collateral Agent") for the Lenders.

Pursuant to the Purchase Agreement (such term and each other capitalized term used but not defined herein having the meaning given it in Article I), the Borrower will acquire (the "Acquisition"), directly or indirectly, 100% of the partnership interests of IDP from the Sellers for $775,000,000 in cash, subject to adjustment as set forth in the Purchase Agreement.

The Borrower has requested the Lenders to extend credit in the form of (a) Tranche A Term Loans on the Closing Date, in an aggregate principal amount not in excess of $275,000,000, (b) Tranche B Term Loans on the Closing Date, in an aggregate principal amount not in excess of $475,000,000, and (c) Revolving Loans at any time and from time to time prior to the Revolving Credit Maturity Date, in an aggregate principal amount at any time outstanding not in excess of $300,000,000. The Borrower has requested the Swingline Lender to extend credit, at any time and from time to time prior to the Revolving Credit Maturity Date, in the form of Swingline Loans. The Borrower has requested the Issuing Banks to issue letters of credit, in an aggregate face amount at any time outstanding not in excess of $200,000,000 (or the Alternative Currency Equivalent thereof), to support payment obligations incurred in the ordinary course of business by the Borrower and its Subsidiaries. The proceeds of the Term Loans are to be used, together with the proceeds of the Subordinated Notes, solely to finance the Acquisition, to refinance the Existing Debt and to pay related fees and expenses, and the proceeds of the Revolving Loans and the Swingline Loans are to be used solely for general corporate purposes.

The Lenders are willing to extend such credit to the Borrower and the Issuing Banks are willing to issue letters of credit for the account of the Borrower and the Subsidiaries on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:





## ARTICLE I

## Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABN" shall mean ABN Amro Bank N.V. and any successor thereto.

"ABN Standby Credit" shall mean bank guarantees, surety and performance bonds, letters of credit and similar financial accommodations issued by ABN or any Affiliate thereof for the account of the Borrower or any Subsidiary solely to support contractual obligations of the Borrower and its Subsidiaries incurred in the ordinary course of business of the Borrower and its Subsidiaries.

"ABN Standby Credit Exposure" shall mean, at any time, the sum of (a) the aggregate principal amount available to be drawn under all ABN Standby Credits at such time and (b) the aggregate principal amount of all disbursements or payments made by ABN or any of its Affiliates under any ABN Standby Credit and not reimbursed by the Borrower or its Subsidiaries at such time. For purposes of determining the ABN Standby Credit Exposure at any time, any amount included therein that is denominated in a currency other than dollars shall be converted to dollars at the applicable Exchange Rate in effect at such time.

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acquisition" shall have the meaning assigned to such term in the preamble to this Agreement.

"Adjusted LIBO Rate" shall mean, with respect to any Eurocurrency Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the product of (a) the LIBO Rate in effect for such Interest Period and (b) Statutory Reserves.

"Administrative Agent Fees" shall have the meaning assigned to such term in Section 2.05(b).

"Administrative Agent's Fee Letter" shall mean the Administrative Agent's Fee Letter dated March 23, 2000, between the Borrower and BofA.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A, or such other form as may be supplied from time to time by the Administrative Agent.





"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified, provided that for purposes of Section 6.07, the term "Affiliate" shall also include any person that directly or indirectly owns more than 5% of any class of capital stock or other equity interests of the person specified or that is an officer or director of the person specified.

"Agents" shall mean the Administrative Agent, the Collateral Agent and the Syndication Agent.

"Aggregate Revolving Credit Exposure" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the preceding sentence, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively. The term "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in Charlotte, North Carolina; each change in the Prime Rate shall be effective on the date such change is publicly announced as being effective. The term "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Alternative Currency" shall mean, with respect to any Letter of Credit, Sterling, euro and any other freely transferable currency (other than dollars) in which such Letter of Credit shall be denominated, as requested by the Borrower and agreed to by the applicable Issuing Bank, with prior written notice to the Administrative Agent.

"Alternative Currency Equivalent" shall mean, on any date of determination, with respect to an amount in dollars, the equivalent thereof in

the relevant Alternative Currency of such amount, determined by the Administrative Agent using the Exchange Rate with respect to such Alternative Currency then in effect pursuant to Section 1.04.





"Alternative Currency Letter of Credit" shall mean any Letter of Credit denominated in an Alternative Currency.

"Applicable Percentage" shall mean, for any day, with respect to any Loan, the applicable percentage set forth below under the caption "Eurocurrency Spread--Tranche A Term Loans and Revolving Loans", "ABR Spread--Tranche A Term Loans and Revolving Loans", "Eurocurrency Spread--Tranche B Term Loans" or "ABR Spread-- Tranche B Term Loans", as the case may be, based upon the Leverage Ratio as of the relevant date of determination (provided that in the case of Swingline Loans, the applicable percentage shall be as set forth below under the caption "ABR Spread-- Tranche A Term Loans and Revolving Loans"):

| Leverage Ratio | Eurocurrency Spread--Tranche A Term Loans and Revolving Loans | ABR Spread--Tranche A Term Loans and Revolving Loans | Eurocurrency Spread--Tranche B Term Loans | ABR Spread--Tranche B Term Loans |
|---|---|---|---|---|
| Category 1<br>Greater than or equal to 4.00 to 1.00 | 2.75% | 1.75% | 3.50% | 2.50% |
| Category 2<br>Greater than or equal to 3.50 to 1.00 but less than 4.00 to 1.00 | 2.50% | 1.50% | 3.50% | 2.50% |
| Category 3<br>Greater than or equal to 3.00 to 1.00 but less than 3.50 to 1.00 | 2.25% | 1.25% | 3.25% | 2.25% |
| Category 4<br>Greater than or equal to 2.50 to 1.00 but less than 3.00 to 1.00 | 1.75% | 0.75% | 3.25% | 2.25% |
| Category 5<br>Less than 2.50 to 1.00 | 1.50% | 0.50% | 3.25% | 2.25% |





Each change in the Applicable Percentage resulting from a change in the Leverage Ratio shall be effective with respect to all Loans and Letters of Credit outstanding on and after the date of delivery to the Administrative Agent of the financial statements and certificates required by Section 5.04(a) or (b) and Section 5.04(d), respectively, indicating such change until the date immediately preceding the next date of delivery of such financial statements and certificates indicating another such change. Notwithstanding the foregoing, until the Borrower shall have delivered the financial statements and certificates required by Section 5.04(a) or (b) and Section 5.04(d), respectively, for the period ended March 31, 2001, the Leverage Ratio shall be

deemed to be in Category 1 for purposes of determining the Applicable Percentage; provided, however, that (a) at any time during which the Borrower has failed to deliver the financial statements and certificates required by Section 5.04(a) or (b) and Section 5.04(d), respectively, or (b) at any time after the occurrence and during the continuance of an Event of Default, the Leverage Ratio shall be deemed to be in Category 1 for purposes of determining the Applicable Percentage.

"Asset Sale" shall mean the sale, transfer or other disposition (by way of merger, casualty, condemnation or otherwise), other than an Asset Swap, by the Borrower or any of the Subsidiaries to any person other than the Borrower or any Subsidiary Guarantor of (a) any capital stock or other equity interests of any of the Subsidiaries (other than directors' qualifying shares) or (b) any other assets of the Borrower or any of the Subsidiaries (other than (i) inventory, damaged, obsolete or worn out assets, scrap and Permitted Investments, in each case disposed of in the ordinary course of business, (ii) the sale of Program Receivables pursuant to the Receivables Program, (iii) dispositions between or among Subsidiaries that are not Loan Parties, (iv) dispositions from Loan Parties to Subsidiaries that are not Loan Parties of assets having an aggregate value not in excess of $25,000,000 and (v) sales, transfers or other dispositions (in addition to those described in clauses (i) through (iv) above) in any fiscal year of the Borrower of assets (other than Consent Decree Assets) having an aggregate value not in excess of $5,000,000).

"Asset Swap" shall mean any transfer of assets of the Borrower or any Subsidiary to any person other than the Borrower or any Affiliate of the Borrower in exchange for assets of such person if such exchange would qualify, whether in part or in full, as a





like-kind exchange pursuant to Section 1031 of the Code. Nothing in this definition shall require the Borrower or any Subsidiary to elect that Section 1031 of the Code be applicable to any Asset Swap.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"Borrowing" shall mean (a) Loans of the same Class and Type made, converted or continued on the same date and, in the case of a Eurocurrency Borrowing, as to which a single Interest Period is in effect or (b) a Swingline Loan.

"Borrowing Request" shall mean a request by the Borrower in accordance with the terms of Section 2.03 and substantially in the form of Exhibit C, or such other form as shall be approved by the Administrative Agent.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in New York City or Los Angeles are authorized or required by law to close; provided, however, that when used in connection with a Eurocurrency Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Calculation Date" shall mean (a) the last Business Day of each month, if any Alternative Currency Letter of Credit is outstanding on such day, and (b) the Business Day preceding the date of issuance, extension, renewal or amendment of any Alternative Currency Letter of Credit.

"Capital Expenditures" shall mean, for any period, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or should be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by the Borrower and its consolidated Subsidiaries during such period, but excluding in each case

any such expenditure made to restore, replace or rebuild property to the condition of such property immediately prior to any damage, loss, destruction or condemnation of such property, to the extent such expenditure is made with insurance proceeds, condemnation awards or damage recovery proceeds relating to any such damage, loss, destruction or condemnation; provided, however, that amounts reinvested as contemplated in the proviso to clause (a) in the definition of Net Cash Proceeds shall not be deemed Capital Expenditures.

"Capital Lease Obligations" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of





such person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Casualty" shall have the meaning assigned to such term in the Mortgages.

"Casualty Proceeds" shall have the meaning assigned to such term in the Mortgages.

A "Change in Control" shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934 as in effect on the date hereof) shall own directly or indirectly, beneficially or of record, shares representing more than 25% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; (b) a majority of the seats (other than vacant seats) on the board of directors of the Borrower shall at any time be occupied by persons who were neither (i) nominated by the board of directors of the Borrower, nor (ii) appointed by directors so nominated; or (c) any change in control (or similar event, however denominated) with respect to the Borrower or any Subsidiary shall occur under and as defined in any indenture or agreement in respect of Material Indebtedness to which the Borrower or any Subsidiary is a party.

"Change in Law" shall mean (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or Issuing Bank (or, for purposes of Section 2.14, by any lending office of such Lender or by such Lender's or Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Tranche A Term Loans, Tranche B Term Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Credit Commitment, Tranche A Commitment, Tranche B Commitment or Swingline Commitment.

"Closing Date" shall mean August 8, 2000.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean all the "Collateral" as defined in any Security Document and shall also include the Mortgaged Properties.

"Commitment" shall mean, with respect to any Lender, such Lender's Revolving Credit Commitment, Term Loan Commitment and/or Swingline Commitment.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.05(a).

"Condemnation" shall have the meaning assigned to such term in the Mortgages.

"Condemnation Proceeds" shall have the meaning assigned to such term in the Mortgages.

"Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Borrower dated March 2000.

"Consent Decree" shall mean the consent decree dated July 28, 2000, in the matter of United States of America v. Flowserve Corporation, Ingersoll-Dresser Pump Company and Ingersoll Rand Company relating to the purchase of Ingersoll-Dresser Pump Company by Flowserve Corporation.

"Consent Decree Assets" shall mean the assets identified in the Consent Decree that the Borrower, IDP and Ingersoll-Rand Company have been ordered and directed to divest in connection with the Acquisition.

"Consolidated EBITDA" shall mean, for any period, Consolidated Net Income for such period, plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) Consolidated Interest Expense for such period, (ii) consolidated income tax expense for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) any extraordinary non-cash charges for such period and (v) cash integration and restructuring charges in connection with the Acquisition and taken with respect to periods ended on or prior to December 31, 2001, in an aggregate amount not to exceed $65,000,000, and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, any extraordinary gains for such period, all determined on a consolidated basis in accordance with GAAP; provided that in the case of the Borrower, Consolidated EBITDA shall be determined with reference to Schedule 1.01(d).

"Consolidated Fixed Charges" shall mean, for any period, the sum of (a) Consolidated Interest Expense for such period, (b) the aggregate amount of scheduled principal payments (whether or not made) during such period in respect of long term Indebtedness of the Borrower and the Subsidiaries (other than payments made by the Borrower or any Subsidiary to the Borrower or a Subsidiary), (c) Capital Expenditures for such period, (d) the aggregate amount of Taxes paid in cash by the Borrower and the Subsidiaries during such period and (e) the aggregate amount of Restricted Payments made in cash by the Borrower and the Subsidiaries during such period in accordance with Section 6.06(a) (other than Section 6.06(a)(i)).

"Consolidated Interest Expense" shall mean, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the sum, without duplication, of (a) all interest, premium payments, fees, charges and related expenses payable by the Borrower and its Subsidiaries in connection with borrowed money (including capitalized interest) or in





connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP and payable in cash, (b) the portion of rent payable by the Borrower and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP and payable in cash and (c) all fees, discounts, premiums, expenses or similar amounts incurred by the Borrower or any of its Subsidiaries in connection with the Receivables Program for such period, including purchase discounts (net of any loss reserves), purchase premiums, operating expense fees, structuring fees, collection agent fees, unutilized purchase limit fees and other similar fees and expenses. For purposes of determining the Interest Coverage Ratio and the Fixed Charge Coverage Ratio at (i) September 30, 2000,

(ii) December 31, 2000 and (iii) March 31, 2001, Consolidated Interest Expense shall be deemed to be (x) the sum of the actual Consolidated Interest Expense for the fiscal quarter ending September 30, 2000, plus $87,000,000, (y) the sum of the actual Consolidated Interest Expense for the two-fiscal quarter period ending December 31, 2000, plus $57,000,000, and (z) the sum of the actual Consolidated Interest Expense for the three-fiscal quarter period ending March 31, 2001, plus $29,000,000, respectively.

"Consolidated Net Income" shall mean, for any period, the net income or loss of the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Subsidiary of that income is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, statute, rule or regulation applicable to such Subsidiary and (b) the income or loss of any person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Borrower or any Subsidiary or the date that such person's assets are acquired by the Borrower or any Subsidiary.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" shall have meanings correlative thereto.

"Credit Event" shall have the meaning assigned to such term in Section 4.01.

"Current Assets" shall mean, at any time, the consolidated current assets (other than cash and Permitted Investments) of the Borrower and the Subsidiaries.

"Current Liabilities" shall mean, at any time, the consolidated current liabilities of the Borrower and the Subsidiaries at such time, but excluding, without duplication, (a) the current portion of any long-term Indebtedness and (b) outstanding Revolving Loans and Swingline Loans.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.





"Defeased IRBs" shall mean the industrial revenue bonds due January 15, 2015 and issued by The City of Albuquerque, New Mexico in the aggregate principal amount of $15,000,000.

"Designated Properties" shall have the meaning assigned to such term in Section 3.20(c).

"dollars" or "$" shall mean lawful money of the United States of America.

"Dollar Equivalent" shall mean, with respect to an amount of any Alternative Currency on any date, the equivalent in dollars of such amount, determined by the Administrative Agent pursuant to Section 1.04 using the applicable Exchange Rate with respect to such currency at the time in effect.

"Dollar Subordinated Note Indenture" shall mean the indenture dated as of August 8, 2000, between the Borrower, the Guarantors identified therein and The Bank of New York, as trustee, as in effect on the Closing Date and as thereafter amended from time to time in accordance with the requirements thereof and of this Agreement, pursuant to which the Dollar Subordinated Notes are issued.

"Dollar Subordinated Notes" shall mean the Borrower's 12-1/4% Senior Subordinated Notes due 2010, in an initial aggregate principal amount of $290,000,000, issued pursuant to the Dollar Subordinated Note Indenture and any notes issued by the Borrower in exchange for the Dollar Subordinated Notes, as

contemplated by the Dollar Subordinated Note Indenture, with substantially identical terms as the Dollar Subordinated Notes.

"Domestic Subsidiaries" shall mean all Subsidiaries incorporated or organized under the laws of the United States of America, any State thereof or the District of Columbia.

"EMU Legislation" shall mean the legislative measures of the European Union for the introduction of, changeover to or operation of the euro in one or more member states.

"Environmental Laws" shall mean all applicable Federal, state, local and foreign laws (including common law), treaties, regulations, rules, ordinances, codes, decrees, judgments and orders (including consent orders), in each case, relating to protection of the environment, natural resources, human health and safety as related to Hazardous Materials or the presence, Release of, or exposure to, Hazardous Materials, or the generation, manufacture, processing, distribution, use, treatment, storage, transport, recycling or handling of, or the arrangement for such activities with respect to, Hazardous Materials.

"Environmental Liability" shall mean liabilities,obligations,claims, actions, suits, judgments or orders under or relating to any Environmental Law for any damages, injunctive relief, losses, fines, penalties, fees, expenses (including fees and expenses of





attorneys and consultants) or costs, including those arising from or relating to: (a) any action to address the on- or off-site presence, Release of, or exposure to, Hazardous Materials; (b) permitting and licensing, administrative oversight, insurance premiums and financial assurance requirements;(c)any personal injury (including death), property damage (real or personal) or natural resource damage; and (d) the compliance or non-compliance with any Environmental Law.

"Equity Issuance" shall mean any issuance or sale by the Borrower or any of its Subsidiaries of any capital stock or other equity interests of the Borrower or any Subsidiary, as applicable, or any obligations convertible into or exchangeable for, or giving any person a right, option or warrant to acquire such capital stock or equity interests or such convertible or exchangeable obligations, except in each case for (a) any issuance or sale to the Borrower or any Subsidiary, (b) any issuance of directors' qualifying shares and (c) sales or issuances of common stock of the Borrower to management or employees of the Borrower or any Subsidiary under any employee stock option or stock purchase plan or employee benefit plan in existence from time to time.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of, or withdrawal from, any Plan or the withdrawal or partial withdrawal of the Borrower or any of its ERISA Affiliates from any Multiemployer Plan; (e) the receipt by the Borrower or any of its ERISA Affiliates from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f)

the adoption of any amendment to a Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA; (g) the receipt by the Borrower or any of its ERISA Affiliates of any notice, or the receipt by any Multiemployer Plan from the Borrower or any of its ERISA Affiliates of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (h) the occurrence of a "prohibited transaction" (within the meaning of Section 4975 of the Code) with respect to which the Borrower or any such Subsidiary incurs liability; (i) any other event or





condition with respect to a Plan or Multiemployer Plan that could reasonably be expected to result in liability of the Borrower; or (j) any Foreign Benefit Event.

"euro" shall mean the single currency of the European Union as constituted by the Treaty on European Union and as referred to in the EMU Legislation.

"Eurocurrency", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Euro Subordinated Note Indenture" shall mean the indenture dated as of August 8, 2000, between FFBV, the Borrower and the other Guarantors identified therein and The Bank of New York, as trustee, as in effect on the Closing Date and as thereafter amended from time to time in accordance with the requirements thereof and of this Agreement, pursuant to which the Euro Subordinated Notes are issued.

"Euro Subordinated Notes" shall mean FFBV's 12-1/4% Senior Subordinated Notes due 2010, in an initial aggregate principal amount of euro 100,000,000, issued pursuant to the Euro Subordinated Note Indenture and any notes issued by FFBV in exchange for the Euro Subordinated Notes, as contemplated by the Euro Subordinated Note Indenture, with substantially identical terms as the Euro Subordinated Notes.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Excess Cash Flow" shall mean, for any fiscal year of the Borrower, (a) the sum, without duplication, of (i) Consolidated EBITDA for such fiscal year and (ii) reductions to noncash working capital of the Borrower and the Subsidiaries for such fiscal year (i.e., the decrease, if any, in Current Assets minus Current Liabilities from the beginning to the end of such fiscal year), other than any such reduction attributable solely to the establishment during such fiscal year of the Receivables Program, less (b) the sum, without duplication, of (i) the amount of any Taxes payable in cash by the Borrower and the Subsidiaries with respect to such fiscal year, (ii) Consolidated Interest Expense for such fiscal year, (iii) Capital Expenditures made in cash in accordance with Section 6.10 during such fiscal year, except to the extent financed with the proceeds of Indebtedness, Equity Issuances, Casualty Proceeds, Condemnation Proceeds or other proceeds that would not be included in Consolidated EBITDA, (iv) permanent repayments of Indebtedness (other than mandatory prepayments of Loans under Section 2.13) made by the Borrower and the Subsidiaries during such fiscal year, but only to the extent that such prepayments by their terms cannot be reborrowed or redrawn and do not occur in connection with a refinancing of all or any portion of such Indebtedness, (v) for the fiscal year ending December 31, 2001, cash restructuring expenses and cash integration expenses, to the extent added to Consolidated Net Income in determining Consolidated EBITDA for such year, (vi) for the fiscal year ending December 31, 2001, capitalized cash restructuring expenses and cash integration expenses in an amount not to exceed $15,000,000, (vii) for any period set forth on Schedule 1.01(d), the amount of synergies and cost savings for such period added to Consolidated Net Income in determining Consolidated EBITDA for such period, and (viii) additions to noncash working capital

for such fiscal year (i.e., the increase, if any, in Current Assets minus Current Liabilities from the beginning to the end of such fiscal year); provided that to the extent otherwise included therein, the Net Cash Proceeds of Asset Sales shall be excluded from the calculation of Excess Cash Flow.

"Exchange Rate" shall mean, on any day with respect to Alternative Currency, the rate at which such Alternative Currency may be exchanged into dollars (or, for purposes of the definition of "Alternative Currency Equivalent" and Section 2.02(f) or any other provision of this Agreement requiring or permitting the conversion of an Alternative Currency to dollars, the rate at which dollars may be exchanged into an Alternative Currency), as set forth at approximately 11:00 a.m., London time, on such date on the Reuters World Currency Page for such Alternative Currency. In the event that such rate does not appear on any Reuters World Currency Page, the Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates as may be agreed upon by the Administrative Agent and the Borrower, or, in the absence of such agreement, such Exchange Rate shall instead be the arithmetic average of the spot rates of exchange of the Administrative Agent in the primary market where its foreign currency exchange operations in respect of such Alternative Currency are then being conducted, at or about 10:00 a.m., local time, on such date for the purchase of dollars (or such Alternative Currency, as the case may be) for delivery two Business Days later; provided that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be presumed correct absent manifest error.

"Excluded Taxes" shall mean, with respect to the Administrative Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed (or measured) on the basis of the net income of such recipient by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which such recipient is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.21(a)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.20(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.20(a).

"Existing Debt" shall mean all principal, premium, if any, interest, fees and other amounts outstanding under (a) the Credit Agreement dated as of October 7, 1999, as amended, among the Borrower, the Lenders party thereto, BofA, as administrative agent, Bank One, Texas, NA, as syndication agent, and ABN Amro Bank N.V., as



documentation agent, (b) the 7.14% Series A Senior Notes due November 15, 2006 and (c) the 7.17% Series B Senior Notes due March 31, 2007.

"Existing Letter of Credit" shall mean each Letter of Credit previously issued for the account of the Borrower or a Subsidiary that (a) is outstanding on the Closing Date and (b) is listed on Schedule 1.01(e). Existing Letters of Credit shall be Financial Letters of Credit, Performance Letters of Credit or

Trade Letters of Credit, as indicated on Schedule 1.01(e).

"Fee Letter" shall mean the Fee Letter dated February 9, 2000, among the Borrower, CSFB, BofA, Banc of America Securities LLC and the Administrative Agent.

"Fees" shall mean the Commitment Fees, the Administrative Agent's Fees, the L/C Participation Fees and the Issuing Bank Fees.

"FFBV" shall mean Flowserve Finance B.V.,a Netherlands corporation (besloten vennootschap) and a wholly owned subsidiary of the Borrower.

"Fifth Third" shall mean Fifth Third Bancorp, an Ohio corporation, its subsidiaries and any successor thereto.

"Fifth Third Letter of Credit" shall mean each letter of credit previously issued for the account of the Borrower or a Subsidiary that (a) is outstanding on the Closing Date and (b) is listed on Schedule 1.01(f).

"Fifth Third Letter of Credit Exposure" shall mean, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Fifth Third Letters of Credit at such time and (b) the aggregate principal amount of all disbursements or payments made by Fifth Third or any of its Affiliates in respect of Fifth Third Letters of Credit that have not yet been reimbursed by the Borrower or its Subsidiaries at such time. For purposes of determining the Fifth Third Letter of Credit Exposure at any time, any amount included therein that is denominated in a currency other than dollars shall be converted to dollars at the applicable Exchange Rate in effect at such time.

"Financial Letter of Credit" shall mean each letter of credit issued (or deemed issued) pursuant to Section 2.23 under which an Issuing Bank agrees to make payments for the account of the Borrower or any Subsidiary in respect of Indebtedness incurred or proposed to be incurred by the Borrower or such Subsidiary. Any Letter of Credit that is neither a Performance Letter of Credit nor a Trade Letter of Credit shall be deemed to be a Financial Letter of Credit.

"Financial Officer" of any person shall mean the chief financial officer, principal accounting officer, treasurer or controller of such person.

"Finsub" shall mean a bankruptcy-remote, wholly owned subsidiary of the Borrower, organized solely for the purpose of engaging in the Receivables Program.





"Fixed Charge Coverage Ratio" shall mean, for any period, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Fixed Charges for such period.

"Flowserve RED" shall mean Flowserve RED Corporation, a Delaware corporation and a wholly owned subsidiary of the Borrower.

"Foreign Benefit Event" shall mean, with respect to any Foreign Pension Plan, (a) the existence of unfunded liabilities in excess of the amount permitted under any applicable law, or in excess of the amount that would be permitted absent a waiver from a Governmental Authority, (b) the failure to make the required contributions or payments, under any applicable law, on or before the due date for such contributions or payments, (c) the receipt of a notice by a Governmental Authority relating to the intention to terminate any such Foreign Pension Plan or to appoint a trustee or similar official to administer any such Foreign Pension Plan, or alleging the insolvency of any such Foreign Pension Plan and (d) the incurrence of any liability in excess of $5,000,000 (or the Dollar Equivalent thereof in another currency) by the Borrower or any of its Subsidiaries under applicable law on account of the complete or partial termination of such Foreign Pension Plan or the complete or partial withdrawal of any participating employer therein, or (e) the occurrence of any transaction that is prohibited under any applicable law that results in the incurrence of any liability by the Borrower or any of its Subsidiaries, or the imposition on the Borrower or any of its Subsidiaries of any fine, excise tax or penalty

resulting from any noncompliance with any applicable law, in each case in excess of $5,000,000 (or the Dollar Equivalent thereof in another currency).

"Foreign Lender" shall mean any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Pension Plan" shall mean any benefit plan which under applicable law is required to be funded through a trust or other funding vehicle other than a trust or funding vehicle maintained exclusively by a Governmental Authority.

"Foreign Subsidiary" shall mean any Subsidiary that is not a Domestic Subsidiary.

"GAAP" shall mean United States generally accepted accounting principles applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Granting Lender" shall have the meaning assigned to such term in Section 9.04(i).





"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness or other obligation, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment of such Indebtedness or other obligation or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation; provided,however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Agreement" shall mean the Guarantee Agreement,substantially in the form of Exhibit D, made by the Guarantors in favor of the Collateral Agent for the benefit of the Secured Parties.

"Guarantors" shall mean each person listed on Schedule 1.01(a) and each other person that becomes party to a Guarantee Agreement as a Guarantor, and the permitted successors and assigns of each such person.

"Hazardous Materials" shall mean (a) any petroleum products or byproducts and all other hydrocarbons, coal ash, radon gas, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, chlorofluorocarbons and all other ozone-depleting substances, in each case regulated by any Environmental Law, and (b) any chemical, material, substance or waste that is prohibited, limited or regulated by or pursuant to any Environmental Law.

"Hedging Agreement" shall mean any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"IDP" shall mean Ingersoll-Dresser Pump Company, a Delaware general partnership.

"Inactive Subsidiary" shall mean each Subsidiary that (i) has not conducted any business during the twelve-month period preceding the date of determination and (ii) has less than $50,000 in assets. The Inactive

Subsidiaries on the Closing Date are listed on Schedule 1.01(c).

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets





purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such person of Indebtedness of third parties, (h) all Capital Lease Obligations of such person, (i) all obligations of such person as an account party in respect of letters of credit and (j) all obligations of such person in respect of bankers' acceptances. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner. In addition, for purposes of this Agreement, the Indebtedness of Finsub shall also include all consideration provided to Finsub by the purchaser of Program Receivables less any amounts collected with respect to such Program Receivables. Notwithstanding the foregoing, so long as the Defeased IRBs are owned by the Borrower or a wholly owned subsidiary, neither the Defeased IRBs nor any Guarantee thereof shall constitute Indebtedness hereunder.

"Indemnified Taxes" shall mean Taxes other than Excluded Taxes.

"Indemnity, Subrogation and Contribution Agreement" shall mean the Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit E, among the Borrower, the Guarantors and the Collateral Agent.

"Interest Coverage Ratio" shall mean, for any period, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

"Interest Payment Date" shall mean, (a) with respect to any ABR Loan (other than a Swingline Loan), the last Business Day of each March, June, September and December, (b) with respect to any Eurocurrency Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurocurrency Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing, and (c) with respect to any Swingline Loan, the day that such Loan is required to be repaid pursuant to Section 2.04(a).

"Interest Period" shall mean, with respect to any Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months (or, if each Lender participating in such Borrowing confirms to the Administrative Agent that Interest Periods of such duration are acceptable to such Lender, 9 or 12 months) thereafter, as the Borrower may elect; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of

such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Invatec" shall mean Innovative Valve Technologies, Inc., a Delaware corporation.

"Investment Grade Ratings" shall mean that the credit rating of the Borrower's senior unsecured, non-credit-enhanced long-term debt (the "Senior Unsecured Debt") is (a) BBB- or higher, as determined by S&P, and (b) Baa3 or higher, as determined by Moody's. The Borrower shall be deemed to have obtained Investment Grade Ratings if it shall deliver to the Agents letters from S&P and Moody's to the effect that the Senior Unsecured Debt would be so rated assuming that the Secured Parties had released their liens in the Collateral.

"Issuing Bank" shall mean, as the context may require, (a) BofA, (b) with respect to each Existing Letter of Credit, the Lender that issued such Existing Letter of Credit, or (c) any other Lender that may become an Issuing Bank pursuant to Section 2.23(i) or 2.23(k), with respect to Letters of Credit issued by such Lender.

"Issuing Bank Fees" shall have the meaning assigned to such term in Section 2.05(c).

"L/C Commitment" shall mean, with respect to any Issuing Bank, the commitment of such Issuing Bank to issue Letters of Credit pursuant to Section 2.23.

"L/C Disbursement" shall mean a payment or disbursement made by an Issuing Bank pursuant to a Letter of Credit.

"L/C Exposure" shall mean, at any time, the sum of (a) the Trade L/C Exposure and (b) the Standby L/C Exposure at such time. The L/C Exposure of any Revolving Credit Lender at any time shall equal its Pro Rata Percentage of the aggregate L/C Exposure at such time.

"L/C Participation Fees" shall have the meaning assigned to such term in Section 2.05(c).

"Lenders" shall mean (a) the financial institutions listed on Schedule 2.01 (other than any such financial institution that has ceased to be a party hereto pursuant to an Assignment and Acceptance) and (b) any financial institution that has become a party hereto pursuant to an Assignment and Acceptance. Unless the context clearly indicates otherwise, the term "Lenders" shall include the Swingline Lender.

"Letter of Credit" shall mean any letter of credit issued pursuant to Section 2.23 and any Existing Letter of Credit.





"Leverage Ratio" shall mean, on any date, the ratio of Total Debt on such date to Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended on or prior to such date. Solely for purposes of this definition, if at any time the Leverage Ratio is being determined the Borrower or any Subsidiary shall have completed a Permitted Acquisition or an Asset Sale since the beginning of the relevant four fiscal quarter period, the Leverage Ratio shall be computed on a pro forma basis (in accordance with the last sentence of Section 6.04(g)) as if such Permitted Acquisition or Asset Sale and any related incurrence of Indebtedness, had occurred at the beginning of such period.

"LIBO Rate" shall mean, with respect to any Eurocurrency Borrowing for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m., London time, on the date that is two Business Days prior to the commencement of such Interest Period by reference to the British

Bankers' Association Interest Settlement Rates for deposits in dollars (as reflected on the applicable Telerate screen) for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LIBO Rate" shall be the interest rate per annum determined by the Administrative Agent to be the rate per annum at which deposits in dollars are offered for such relevant Interest Period to major banks in the London interbank market by the Administrative Agent at approximately 11:00 a.m. (London time) on the date that is two Business Days prior to the beginning of such Interest Period.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" shall mean this Agreement, the Letters of Credit, the Guarantee Agreement, the Security Documents and the Indemnity, Subrogation and Contribution Agreement.

"Loan Parties" shall mean the Borrower and the Guarantors.

"Loans" shall mean the Revolving Loans, the Term Loans and the Swingline Loans.

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Material Adverse Effect" shall mean (a) a materially adverse effect on the business, assets, results of operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, (b) material impairment of the ability of the Borrower or any other Loan Party to perform any of its obligations under any Loan Document to which it is or will be a party or (c) material impairment of the rights of or benefits available to the Lenders under any Loan Document.





"Material Indebtedness" shall mean Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and the Subsidiaries in an aggregate principal amount exceeding $10,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Moody's" shall mean Moody's Investors Service, Inc. or any successor thereto.

"Mortgaged Properties" shall mean the owned real properties and leasehold and subleasehold interests of the Loan Parties specified on Schedule 1.01(b).

"Mortgages" shall mean the mortgages, deeds of trust, leasehold mortgages, assignments of leases and rents, modifications and other security documents delivered pursuant to clause (i) of Section 4.02(j) or pursuant to Section 5.09, each substantially in the form of Exhibit F.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" shall mean (a) with respect to any Asset Sale, the cash proceeds (including cash proceeds subsequently received (as and when received) in respect of noncash consideration initially received), net of (i) selling expenses (including broker's fees or commissions, legal fees, transfer

and similar taxes and the Borrower's good faith estimate of income taxes paid or payable in connection with such sale), (ii) amounts provided as a reserve, in accordance with GAAP, against any liabilities under any indemnification obligations or purchase price adjustment associated with such Asset Sale (provided that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds) and (iii) the principal amount, premium or penalty, if any, interest and other amounts on any Indebtedness for borrowed money which is secured by the asset sold in such Asset Sale and which is required to be repaid with such proceeds (other than any such Indebtedness assumed by the purchaser of such asset); provided, however, that, except with respect to the Net Cash Proceeds of Consent Decree Assets, if (x) the Borrower shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of receipt thereof setting forth the Borrower's intent to reinvest such proceeds in productive assets of a kind then used or usable in the business of the Borrower and its Subsidiaries within 270 days of receipt of such proceeds and (y) no Default or Event of Default shall have occurred and shall be continuing at the time of such certificate or at the proposed time of the application of such proceeds, such proceeds shall not constitute Net Cash Proceeds except to the extent not so used or contractually committed to be used at the end of such 270-day period, at which time such proceeds shall be deemed to be Net Cash Proceeds; and (b) with respect to any issuance or disposition of Indebtedness or any Equity Issuance or the initial sale of Program Receivables pursuant to the Receivables Program (or any subsequent increase thereto permitted hereunder), the cash





proceeds thereof, net of all taxes and fees, commissions, costs and other expenses incurred in connection therewith. Any "boot" or other non-like-kind assets received in connection with an Asset Swap shall, to the extent received in cash or at the time converted into cash, be considered cash proceeds from the sale of an asset.

"Obligation Currency" shall have the meaning assigned to such term in Section 9.16.

"Obligations" shall mean all obligations defined as "Obligations" in the Guarantee Agreement and the Security Documents.

"Other Taxes" shall mean any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"Pari Passu Exposure" shall mean, at any time, the sum of the ABN Standby Credit Exposure at such time and the Fifth Third Letter of Credit Exposure at such time.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Perfection Certificate" shall mean the Perfection Certificate substantially in the form of Annex 1 to the Security Agreement.

"Performance Letter of Credit" shall mean each letter of credit issued (or deemed issued) pursuant to Section 2.23 under which an Issuing Bank agrees to make payments for the account of the Borrower or any Subsidiary in respect of obligations (other than Indebtedness) of, or performance by, the Borrower or such Subsidiary pursuant to contracts to which the Borrower or such Subsidiary is or proposes to be a party, in each case in the ordinary course of business of the Borrower or such Subsidiary.

"Permitted Acquisition" shall have the meaning assigned to such term in Section 6.04(g).

"Permitted Investments" shall mean:

(a) direct obligations of, or obligations the principal of and

interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, one of the three highest credit ratings obtainable from S&P or from Moody's;





(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any Agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than $500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above;

(e) investments in "money market funds" within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended, substantially all of whose assets are invested in investments of the type described in clauses (a) through (d) above; and

(f) other short-term investments utilized by Foreign Subsidiaries in accordance with normal investment practices for cash management in investments of a type analogous to the foregoing.

"Person" shall mean any natural person, corporation, business trust, joint venture, association, company, limited liability company, partnership or government, or any agency or political subdivision thereof.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement" shall mean the Pledge Agreement, substantially in the form of Exhibit G, between the Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Program Receivables" shall mean all trade receivables and related contract rights originated and owned by the Borrower or any Subsidiary and sold pursuant to the Receivables Program.

"Pro Rata Percentage" of any Revolving Credit Lender at any time shall mean the percentage of the Total Revolving Credit Commitment represented by such Lender's Revolving Credit Commitment. In the event the Revolving Credit Commitments shall have expired or been terminated, the Pro Rata Percentages shall be determined on the basis of the Revolving Credit Commitments most recently in effect.

"Purchase Agreement" shall mean the Purchase Agreement dated as of February 9, 2000, as amended by Amendment No. 1 dated as of July 14, 2000, among

the Borrower, Flowserve RED and the Sellers, as the same may be further amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Receivables Program" shall mean, collectively, (a) the sale of, or transfer of interests in, Program Receivables to Finsub in a "true sale" transaction and (b) the sale of, or transfer of interests in, such Program Receivables by Finsub to persons that are not Affiliates of the Borrower; provided, that all governing terms and conditions (including any terms or conditions providing for recourse to the Borrower or any of its Subsidiaries (other than Finsub)) of the Receivables Program shall be subject to the prior written approval of the Agents, which approval shall not be unreasonably withheld.

"Receivables Program Documentation" shall mean all written agreements that may from time to time be entered into by the Borrower and/or any Subsidiary in connection with the Receivables Program, as such agreements may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof and hereof.

"Register" shall have the meaning given such term in Section 9.04(d).

"Regulation T" shall mean Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Related Fund" shall mean, with respect to any Lender that is a fund that invests in bank loans, any other fund that invests in bank loans and is advised or managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Release" shall mean any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment or within or upon any building, structure, facility or fixture.

"Release Date" shall have the meaning assigned to such term in Section 9.19.

"Required Lenders" shall mean, at any time, Lenders having Loans (excluding Swingline Loans), L/C Exposure, Swingline Exposure and unused Revolving Credit Commitments and Term Loan Commitments representing at least a majority of the sum of all Loans outstanding (excluding Swingline Loans), L/C Exposure, Swingline Exposure and unused Revolving Credit Commitments and Term Loan Commitments at such time.





"Responsible Officer" of any person shall mean any executive officer or Financial Officer of such person and any other officer or similar official thereof responsible for the administration of the obligations of such person in respect of this Agreement.

"Restricted Payment" shall have the meaning assigned to such term in Section 6.06(a).

"Revolving Credit Borrowing" shall mean a Borrowing comprised of

Revolving Loans.

"Revolving Credit Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Revolving Credit Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"Revolving Credit Exposure" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, plus the aggregate amount at such time of such Lender's L/C Exposure, plus the aggregate amount at such time of such Lender's Swingline Exposure.

"Revolving Credit Lender" shall mean a Lender with a Revolving Credit Commitment or an outstanding Revolving Loan.

"Revolving Credit Maturity Date" shall mean June 30, 2006.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Borrower pursuant to clause (c) of Section 2.01.

"Secured Parties" shall have the meaning assigned to such term in the Security Agreement.

"Security Agreement" shall mean the Security Agreement, substantially in the form of Exhibit H, among the Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Security Documents" shall mean the Mortgages, the Security Agreement, the Pledge Agreement, the U.K. Debenture and each of the security agreements, mortgages and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.09.

"Sellers" shall mean IDP Acquisition, LLC, a Delaware limited liability company, and Ingersoll-Rand Company, a New Jersey corporation.

"SPC" shall have the meaning assigned to such term in Section 9.04(i).





"S&P" shall mean Standard & Poor's Ratings Services or any successor thereto.

"Standby Letter of Credit" shall mean any Financial Letter of Credit or any Performance Letter of Credit.

"Standby L/C Exposure" shall mean, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Standby Letters of Credit at such time that are denominated in dollars, plus the Dollar Equivalent at such time of the aggregate undrawn amount of all outstanding Alternative Currency Standby Letters of Credit, and (b) the aggregate principal amount of all L/C Disbursements in respect of Standby Letters of Credit denominated in dollars that have not yet been reimbursed at such time plus the Dollar Equivalent at such time of the aggregate principal amount of all L/C Disbursements in respect of Standby Letters of Credit denominated in Alternative Currencies that have not yet been reimbursed at such time. The Standby L/C Exposure of any Revolving Credit Lender at any time shall equal its Pro Rata Percentage of the aggregate Standby L/C Exposure at such time.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Sterling" or "(pound)" shall mean lawful money of the United Kingdom.

"Subordinated Note Documents" shall mean the Subordinated Notes, the Subordinated Note Indentures and all other documents executed and delivered with respect to the Subordinated Notes and the Subordinated Note Indentures.

"Subordinated Note Indentures" shall mean the Dollar Subordinated Note Indenture and the Euro Subordinated Note Indenture.

"Subordinated Notes" shall mean the Dollar Subordinated Notes and the Euro Subordinated Notes.

"subsidiary" shall mean, with respect to any person (herein referred to as the "parent"), any corporation, partnership, association or other business entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held.

"Subsidiary" shall mean any subsidiary of the Borrower.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make loans pursuant to Section 2.22, as the same may be reduced from time to time pursuant to Section 2.09.





"Swingline Exposure" shall mean at any time the aggregate principal amount at such time of all outstanding Swingline Loans. The Swingline Exposure of any Revolving Credit Lender at any time shall equal its Pro Rata Percentage of the aggregate Swingline Exposure at such time.

"Swingline Loan" shall mean any loan made by the Swingline Lender pursuant to Section 2.22.

"Taxes" shall mean any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Term Borrowing" shall mean a Borrowing comprised of Tranche A Term Loans or Tranche B Term Loans.

"Term Loan Commitments" shall mean the Tranche A Commitments and the Tranche B Commitments.

"Term Loan Repayment Dates" shall mean the Tranche A Term Loan Repayment Dates and the Tranche B Term Loan Repayment Dates.

"Term Loans" shall mean the Tranche A Term Loans and the Tranche B Term Loans.

"Total Debt" shall mean, at any time, the total Indebtedness of the Borrower and the Subsidiaries at such time (excluding (a) Indebtedness under Section 6.01(k), (b) Indebtedness under Section 6.01(o) and (c) Indebtedness of the type described in clause (i) of the definition of such term and under Section 6.01(l), except in each case to the extent of any unreimbursed drawings or payments thereunder).

"Total Revolving Credit Commitment" shall mean, at any time, the aggregate amount of the Revolving Credit Commitments, as in effect at such time. The initial amount of the Total Revolving Credit Commitment is $300,000,000.

"Trade Letter of Credit" shall mean each commercial documentary letter of credit issued (or deemed issued) by BofA for the account of the Borrower or any Subsidiary pursuant to Section 2.23 for the purchase of goods by the Borrower or such Subsidiary in the ordinary course of its business.

"Trade L/C Exposure" shall mean at any time the sum of (a) the aggregate undrawn amount of all outstanding Trade Letters of Credit at such time

that are denominated in dollars, plus the Dollar Equivalent at such time of the aggregate undrawn amount of all outstanding Alternative Currency Trade Letters of Credit, and (b) the aggregate principal amount of all L/C Disbursements in respect of Trade Letters of Credit denominated in dollars that have not yet been reimbursed at such time plus the Dollar Equivalent at such time of the aggregate principal amount of all L/C Disbursements in respect of Trade Letters of Credit denominated in Alternative Currencies that have not yet been reimbursed at such time.





"Tranche A Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Tranche A Term Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of the aggregate Tranche A Commitments is $275,000,000.

"Tranche A Maturity Date" shall mean June 30, 2006.

"Tranche A Term Borrowing" shall mean a Borrowing comprised of Tranche A Term Loans.

"Tranche A Term Loan Repayment Date" shall have the meaning assigned to such term in Section 2.11(a)(i).

"Tranche A Term Loans" shall mean the term loans made by the Lenders to the Borrower pursuant to clause (a) of Section 2.01.

"Tranche B Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Tranche B Term Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Term Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of the aggregate Tranche B Commitments is $475,000,000.

"Tranche B Maturity Date" shall mean June 30, 2008.

"Tranche B Term Borrowing" shall mean a Borrowing comprised of Tranche B Term Loans.

"Tranche B Term Loan Repayment Date" shall have the meaning assigned to such term in Section 2.11(a)(ii).

"Tranche B Term Loans" shall mean the term loans made by the Lenders to the Borrower pursuant to clause (b) of Section 2.01.

"Transactions" shall mean, collectively, the transactions to occur pursuant to the Purchase Agreement and the Loan Documents, including (a) the execution and delivery of the Purchase Agreement and the consummation of the Acquisition, (b) the execution and delivery of the Loan Documents, the performance by the Loan Parties of their respective obligations thereunder and the initial Borrowings hereunder, (c) the execution and delivery of the Subordinated Note Documents and the issuance of the Subordinated Notes and (d) the payment of all fees and expenses to be paid on or prior to the Closing Date and owing in connection with the foregoing.





"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising

such Borrowing is determined. For purposes hereof, the term "Rate" shall include the Adjusted LIBO Rate and the Alternate Base Rate.

"U.K. Debenture", shall mean the Debenture, substantially in the form of Exhibit J, between Flowserve International Limited, a Foreign Subsidiary of the Borrower organized under the laws of the United Kingdom, and Bank of America, N.A., as Collateral Agent.

"wholly owned subsidiary" of any person shall mean a subsidiary of such person of which securities (except for directors' qualifying shares) or other ownership interests representing 100% of the equity or 100% of the ordinary voting power or 100% of the general partnership interests are, at the time any determination is being made, owned, controlled or held by such person or one or more wholly owned subsidiaries of such person or by such person and one or more wholly owned subsidiaries of such person.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, (a) any reference in this Agreement to any Loan Document shall mean such document as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI or any related definition to eliminate the effect of any change in GAAP occurring after the date of this Agreement on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI or any related definition for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

SECTION 1.03. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Type (e.g., a "Eurocurrency Loan") or by Class and Type (e.g., a "Eurocurrency Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Type (e.g., a "Eurocurrency Borrowing") or by Class and Type (e.g., a "Eurocurrency Revolving Borrowing").





SECTION 1.04. Exchange Rates. (a) On each Calculation Date, the Administrative Agent shall (i) determine the relevant Exchange Rates as of such Calculation Date and (ii) give notice thereof to the Lenders and the Company. The Exchange Rates so determined shall become effective on the first Business Day immediately following the relevant Calculation Date (a "Reset Date"), shall remain effective until the next succeeding Reset Date, and shall for all purposes of this Agreement (other than Section 2.02(f), Section 2.05(c), Section 2.22(c), Section 9.16 or any other provision expressly requiring the use of a current Exchange Rate) be the Exchange Rates employed in converting any amounts between dollars and Alternative Currencies.

(b) Notwithstanding the foregoing, no Default shall be deemed to have occurred if, solely as a result of changes in exchange rates and not as the result of additional incurrences of Indebtedness, investments, loans or advances, the dollar equivalent of any amount subject to a cash basket set forth in Section 6.01, 6.02 or 6.04 is exceeded.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, (a) to make a Tranche A Term Loan to the Borrower, in dollars, on the Closing Date in a principal amount not to exceed its Tranche A Commitment, (b) to make a Tranche B Term Loan to the Borrower, in dollars, on the Closing Date in a principal amount not to exceed its Tranche B Commitment, and (c) to make Revolving Loans to the Borrower, at any time and from time to time on or after the date hereof, and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitment of such Lender in accordance with the terms hereof, in dollars, in an aggregate principal amount at any time outstanding that will not result in (i) such Lender's Revolving Credit Exposure exceeding such Lender's Revolving Credit Commitment or (ii) the sum of (x) the Aggregate Revolving Credit Exposure and (y) the Pari Passu Exposure exceeding the Total Revolving Credit Commitment. Within the limits set forth in clause (c) of the preceding sentence and subject to the terms, conditions and limitations set forth herein, the Borrower may borrow, pay or prepay and reborrow Revolving Loans. Amounts paid or prepaid in respect of Term Loans may not be reborrowed.

SECTION 2.02. Loans. (a) Each Loan (other than Swingline Loans) shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their applicable Commitments; provided, however, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Except for Loans deemed made pursuant to Section 2.02(f), the Loans





comprising any Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of $1,000,000 and not less than $5,000,000 or (ii) equal to the remaining available balance of the applicable Commitments.

(b) Subject to Sections 2.08 and 2.15, each Borrowing shall be comprised entirely of ABR Loans or Eurocurrency Loans as the Borrower may request pursuant to Section 2.03. Each Lender may at its option make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing that, if made, would result in more than 25 Eurocurrency Borrowings outstanding hereunder at any time. For purposes of the foregoing, Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Except with respect to Loans made pursuant to Section 2.02(f), each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to such account as the Administrative Agent may designate not later than 11:00 a.m., California time, and the Administrative Agent shall promptly credit the amounts so received to an account in the name of the Borrower, maintained with the Administrative Agent and designated by the Borrower in the applicable Borrowing Request or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (c) above and the Administrative Agent may, in

reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If the Administrative Agent shall have so made funds available then, to the extent that such Lender shall not have made such portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, a rate determined by the Administrative Agent to represent its cost of overnight or short-term funds (which determination shall be conclusive absent manifest error). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.





(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Revolving Credit Borrowing if the Interest Period requested with respect thereto would end after the Revolving Credit Maturity Date.

(f) If, with respect to any L/C Disbursement made under a Standby Letter of Credit, the applicable Issuing Bank shall not have received from the Borrower the payment required to be made by Section 2.23(e) within the time specified in such Section, such Issuing Bank will promptly notify the Administrative Agent of the L/C Disbursement and the Administrative Agent will promptly notify each Revolving Credit Lender of such L/C Disbursement, the Dollar Equivalent thereof (if denominated in an Alternative Currency) and its Pro Rata Percentage thereof. Each Revolving Credit Lender shall pay by wire transfer of immediately available dollars to the Administrative Agent not later than 11:00 a.m., California time, on such date (or, if such Revolving Credit Lender shall have received such notice later than 9:00 a.m., California time, on any day, not later than 11:00 a.m., California time, on the immediately following Business Day), an amount equal to such Lender's Pro Rata Percentage of such L/C Disbursement (or the Dollar Equivalent thereof, if such L/C Disbursement was denominated in an Alternative Currency) (it being understood that such amount shall be deemed to constitute an ABR Revolving Loan of such Lender and such payment shall be deemed to have reduced the Standby L/C Exposure), and the Administrative Agent will promptly pay to the applicable Issuing Bank amounts so received by it from the Revolving Credit Lenders. The Administrative Agent will promptly pay to the applicable Issuing Bank any amounts received by it from the Borrower pursuant to Section 2.23(e) prior to the time that any Revolving Credit Lender makes any payment pursuant to this paragraph (f); any such amounts received by the Administrative Agent thereafter will be promptly remitted by the Administrative Agent to the Revolving Credit Lenders that shall have made such payments and to the applicable Issuing Bank, as their interests may appear. If any Revolving Credit Lender shall not have made its Pro Rata Percentage of such L/C Disbursement available to the Administrative Agent as provided above, such Lender and the Borrower severally agree to pay interest on such amount, for each day from and including the date such amount is required to be paid in accordance with this paragraph to but excluding the date such amount is paid, to the Administrative Agent for the account of the applicable Issuing Bank at (i) in the case of the Borrower, a rate per annum equal to the interest rate applicable to Revolving Loans pursuant to Section 2.06(a), and (ii) in the case of such Lender, for the first such day, the Federal Funds Effective Rate, and for each day thereafter, the Alternate Base Rate.

SECTION 2.03. Borrowing Procedure. In order to request a Borrowing (other than a Swingline Loan or a deemed Borrowing pursuant to Section 2.02(f), as to which this Section 2.03 shall not apply), the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Borrowing Request (a) in the case of a Eurocurrency Borrowing, not later than 10:00 a.m., California time, three Business Days before a proposed Borrowing, and (b) in the case of an ABR Borrowing, not later than 12:00 noon, California time, one Business Day before a proposed Borrowing. Each Borrowing Request shall be irrevocable, shall be signed by or on behalf of the Borrower and shall specify the following information: (i) whether the Borrowing then being

requested is to be a Tranche A Term Borrowing, a Tranche B Term Borrowing or a Revolving Credit Borrowing, and whether such Borrowing is to be a Eurocurrency Borrowing or an ABR Borrowing (provided that until the Syndication Agent shall have notified the Borrower and the Administrative Agent that the primary syndication of the Commitments has been completed (which notice shall be given as promptly as practicable and, in any event, within 30 days after the Closing Date), the Borrower shall only request, at its option, either (x) ABR Borrowings or (y) Eurocurrency Borrowings with one-month Interest Periods all ending on the same date); (ii) the date of such Borrowing (which shall be a Business Day); (iii) the number and location of the account to which funds are to be disbursed (which shall be an account that complies with the requirements of Section 2.02(c); (iv) the amount of such Borrowing and (v) if such Borrowing is to be a Eurocurrency Borrowing, the Interest Period with respect thereto; provided, however, that, notwithstanding any contrary specification in any Borrowing Request, each requested Borrowing shall comply with the requirements set forth in Section 2.02. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurocurrency Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise the applicable Lenders of any notice given pursuant to this Section 2.03 (and the contents thereof), and of each Lender's portion of the requested Borrowing.

SECTION 2.04. Evidence of Debt; Repayment of Loans. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender (i) the principal amount of each Term Loan of such Lender as provided in Section 2.11 and (ii) the then unpaid principal amount of each Revolving Loan of such Lender on the Revolving Credit Maturity Date. The Borrower hereby promises to pay the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the Revolving Credit Maturity Date and the first date after such Swingline Loan is made that is the last day of a calendar month and is at least fifteen days after such Swingline Loan is made.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain the Register in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower or any Guarantor and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) above shall be prima facie evidence of the existence and amounts of the obligations therein recorded; provided, however, that the failure of any Lender or the



Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrower to repay the Loans in accordance with their terms. In the event of any inconsistency between the Register and any Lender's records, the recordations of the Register shall govern.

(e) Any Lender may request that Loans made by it hereunder be evidenced by a promissory note. In such event, the Borrower shall execute and deliver to such Lender a promissory note payable to such Lender and its registered assigns and in a form and substance reasonably acceptable to the Administrative Agent and the Borrower. Notwithstanding any other provision of this Agreement, in the event any Lender shall request and receive such a promissory note, the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 9.04) be represented by one or more promissory notes payable to the payee named therein or its registered assigns.

SECTION 2.05. Fees. (a) The Borrower agrees to pay to each Lender, through the Administrative Agent, on the last Business Day of March, June, September and December, in each year and on each date on which any Commitment of such Lender shall expire or be terminated as provided herein, a commitment fee (a "Commitment Fee") equal to 0.50% per annum on the average daily unused amount (treating Standby L/C Exposure as usage of the Revolving Credit Commitments) of the Commitments of such Lender (other than the Swingline Commitment) during the preceding quarter (or other period commencing with the date hereof or ending with the Revolving Credit Maturity Date or the date on which the Commitments of such Lender shall expire or be terminated). All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the date hereof and shall cease to accrue on the date on which the Commitment of such Lender shall expire or be terminated as provided herein. For purposes of calculating Commitment Fees only, no portion of the Revolving Credit Commitments shall be deemed utilized as a result of outstanding Swingline Loans or Trade Letters of Credit.

(b) The Borrower agrees to pay to the Administrative Agent, for its own account, the administrative fees set forth in the Administrative Agent's Fee Letter at the times and in the amounts specified therein (the "Administrative Agent Fees").

(c) The Borrower agrees to pay (i) to each Revolving Credit Lender, in dollars, through the Administrative Agent, on the last Business Day of March, June, September and December, of each year and on the date on which the Revolving Credit Commitment of such Lender shall be terminated as provided herein, a fee (an "L/C Participation Fee") calculated on such Lender's Pro Rata Percentage of the daily aggregate Standby L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the date hereof or ending with the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated) at a rate equal to (x) in the case of Financial Letters of Credit and, during any time the Borrower





has not obtained and maintained Investment Grade Ratings, Performance Letters of Credit, the Applicable Percentage from time to time used to determine the interest rate on Revolving Credit Borrowings comprised of Eurocurrency Loans pursuant to Section 2.06 (the "Financial L/C Rate") and (y) in the case of Performance Letters of Credit at any time that the Borrower has obtained and maintained Investment Grade Ratings, 65% of the Financial L/C Rate, and (ii) to the applicable Issuing Bank with respect to each Standby Letter of Credit a fronting fee equal to 1/8 of 1% per annum (or such other amount as may be agreed upon by the Borrower and the applicable Issuing Bank) on the aggregate face amount of such Letter of Credit plus the amount of any other issuance and drawing costs specified from time to time by such Issuing Bank with regard to a Letter of Credit (the "Issuing Bank Fees"). All L/C Participation Fees and, except as otherwise agreed by the Borrower and the applicable Issuing Bank, Issuing Bank Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. For purposes of determining the amount of the L/C Participation Fees with respect to any Alternative Currency Letter of Credit, the Standby L/C Exposure shall be determined by the Administrative Agent using the Exchange Rates in effect at approximately 11:00 a.m., New York City time, on the date that is two Business Days before the payment of the L/C Participation Fee.

(d) All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that the Issuing Bank Fees shall be paid directly to the applicable Issuing Bank. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.06. Interest on Loans. (a) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing, including each Swingline Loan, shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base Rate is determined by reference to the Prime Rate and over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate plus the Applicable Percentage in effect from time to time.

(b) Subject to the provisions of Section 2.07, the Loans comprising each Eurocurrency Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Percentage in effect from time to time.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Adjusted LIBO Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.07. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, or under any other Loan Document, the Borrower shall on





demand from time to time pay interest, to the extent permitted by law, on such defaulted amount to but excluding the date of actual payment (after as well as before judgment) (a) in the case of overdue principal, at the rate otherwise applicable to such Loan pursuant to Section 2.06 plus 2.00% per annum and (b) in all other cases, at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when determined by reference to the Prime Rate and over a year of 360 days at all other times) equal to the rate that would be applicable to an ABR Revolving Loan plus 2.00%.

SECTION 2.08. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurocurrency Borrowing the Administrative Agent shall have determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to any Lender of making or maintaining its Eurocurrency Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Adjusted LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Lenders. In the event of any such determination, until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, any request by the Borrower for a Eurocurrency Borrowing pursuant to Section 2.03 or 2.10 shall be deemed to be a request for an ABR Borrowing. Each determination by the Administrative Agent under this Section 2.08 shall be conclusive absent manifest error.

SECTION 2.09. Termination and Reduction of Commitments. (a) The Term Loan Commitments shall automatically terminate at 5:00 p.m., California time, on the Closing Date. The Revolving Credit Commitments, the Swingline Commitment and the L/C Commitments shall automatically terminate on the Revolving Credit Maturity Date. Notwithstanding the foregoing, all the Commitments shall automatically terminate at 5:00 p.m., California time, on August 8, 2000, if the

first Credit Event shall not have occurred by such time.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Term Loan Commitments or the Revolving Credit Commitments; provided, however, that (i) each partial reduction of the Term Loan Commitments or the Revolving Credit Commitments shall be in an integral multiple of $1,000,000 and in a minimum amount of $5,000,000 and (ii) the Total Revolving Credit Commitment shall not be reduced to an amount that is less than the sum of the Aggregate Revolving Credit Exposure at the time.

(c) Each reduction in the Term Loan Commitments or the Revolving Credit Commitments hereunder shall be made ratably among the Lenders in accordance with their respective applicable Commitments. The Borrower shall pay to the Administrative Agent for the account of the applicable Lenders, on the date of each termination or





reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

SECTION 2.10. Conversion and Continuation of Borrowings. The Borrower shall have the right at any time upon prior irrevocable notice to the Administrative Agent (a) not later than 10:00 a.m., California time, one Business Day prior to conversion, to convert any Eurocurrency Borrowing into an ABR Borrowing, (b) not later than 10:00 a.m., California time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurocurrency Borrowing or to continue any Eurocurrency Borrowing as a Eurocurrency Borrowing for an additional Interest Period, and (c) not later than 10:00 a.m., California time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurocurrency Borrowing to another permissible Interest Period, subject in each case to the following:

(i) each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans comprising the converted or continued Borrowing;

(ii) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall satisfy the limitations specified in Sections 2.02(a) and 2.02(b) regarding the principal amount and maximum number of Borrowings of the relevant Type;

(iii) each conversion shall be effected by each Lender and the Administrative Agent by recording for the account of such Lender the new Loan of such Lender resulting from such conversion and reducing the Loan (or portion thereof) of such Lender being converted by an equivalent principal amount; accrued interest on any Eurocurrency Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(iv) if any Eurocurrency Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.16;

(v) any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurocurrency Borrowing;

(vi) any portion of a Eurocurrency Borrowing that cannot be converted into or continued as a Eurocurrency Borrowing by reason of the immediately preceding clause shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing;

(vii) no Interest Period may be selected for any Eurocurrency

Term Borrowing that would end later than a Term Loan Repayment Date occurring on or after the first day of such Interest Period if, after giving effect to such selection, the aggregate outstanding amount of (A) the Eurocurrency Term





Borrowings comprised of Tranche A Term Loans or Tranche B Term Loans, as applicable, with Interest Periods ending on or prior to such Term Loan Repayment Date and (B) the ABR Term Borrowings comprised of Tranche A Term Loans or Tranche B Term Loans, as applicable would not be at least equal to the principal amount of Term Borrowings to be paid on such Term Loan Repayment Date;

(viii) upon notice to the Borrower from the Administrative Agent given at the request of the Required Lenders, after the occurrence and during the continuance of a Default or Event of Default, no outstanding Loan may be converted into, or continued as, a Eurocurrency Loan; and

(ix) until the Syndication Agent shall have notified the Borrower and the Administrative Agent that the primary syndication of the Commitments has been completed (which notice shall be given by the Syndication Agent as promptly as practicable and, in any event, within 30 days after the Closing Date), no ABR Borrowing may be converted into a Eurocurrency Borrowing (other than a Eurocurrency Borrowing with an Interest Period of not more than one-month's duration and which does not end on a date different from any other outstanding Eurocurrency Borrowing).

Each notice pursuant to this Section 2.10 shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Borrowing that the Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted to or continued as a Eurocurrency Borrowing or an ABR Borrowing, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Borrowing is to be converted to or continued as a Eurocurrency Borrowing, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as a Eurocurrency Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall advise the Lenders of any notice given pursuant to this Section 2.10 and of each Lender's portion of any converted or continued Borrowing. If the Borrower shall not have given notice in accordance with this Section 2.10 to continue any Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.10 to convert such Borrowing), such Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into a new Interest Period as an ABR Borrowing.

SECTION 2.11. Repayment of Term Borrowings. (a) (i) The Borrower shall pay to the Administrative Agent, for the account of the Lenders, on the dates set forth below, or if any such date is not a Business Day, on the next preceding Business Day (each such date being a "Tranche A Term Loan Repayment Date"), a principal amount of the Tranche A Term Loans (as adjusted from time to time pursuant to Sections 2.11(b), 2.12 and 2.13(g)) equal to the amount set forth below for such date, together in each case with accrued and unpaid interest on the principal amount to be paid to but excluding the





date of such payment:

| Date | Amount |
|---|---|
| June 30, 2001 | $ 5,000,000 |
| September 30, 2001 | 5,000,000 |
| December 31, 2001 | 5,000,000 |
| March 31, 2002 | 7,500,000 |
| June 30, 2002 | 7,500,000 |
| September 30, 2002 | 13,000,000 |
| December 31, 2002 | 13,000,000 |
| March 31, 2003 | 13,000,000 |
| June 30, 2003 | 13,000,000 |
| September 30, 2003 | 15,000,000 |
| December 31, 2003 | 15,000,000 |
| March 31, 2004 | 15,000,000 |
| June 30, 2004 | 15,000,000 |
| September 30, 2004 | 15,000,000 |
| December 31, 2004 | 15,000,000 |
| March 31, 2005 | 15,000,000 |
| June 30, 2005 | 15,000,000 |
| September 30, 2005 | 17,000,000 |
| December 31, 2005 | 17,000,000 |
| March 31, 2006 | 17,000,000 |
| Tranche A Maturity Date | 22,000,000 |

(ii) The Borrower shall pay to the Administrative Agent, for the account of the Lenders, on the dates set forth below or, if any such date is not a Business Day, on the next preceding Business Day (each such date being a "Tranche B Term Loan Repayment Date"), a principal amount of the Tranche B Term Loans (as adjusted from time to time pursuant to Sections 2.11(b), 2.12 and 2.13(g)) equal to the amount set forth below for such date, together in each case with accrued and unpaid interest on the principal amount to be paid to but excluding the date of such payment:





| Date | Amount |
|---|---|
| June 30, 2001 | $ 1,000,000 |
| September 30, 2001 | 1,000,000 |
| December 31, 2001 | 1,000,000 |
| March 31, 2002 | 1,000,000 |
| June 30, 2002 | 1,000,000 |
| September 30, 2002 | 1,000,000 |
| December 31, 2002 | 1,000,000 |
| March 31, 2003 | 1,000,000 |
| June 30, 2003 | 1,000,000 |
| September 30, 2003 | 1,000,000 |
| December 31, 2003 | 1,000,000 |
| March 31, 2004 | 1,000,000 |
| June 30, 2004 | 1,000,000 |
| September 30, 2004 | 1,000,000 |
| December 31, 2004 | 1,000,000 |
| March 31, 2005 | 1,000,000 |
| June 30, 2005 | 1,000,000 |
| September 30, 2005 | 1,000,000 |
| December 31, 2005 | 1,000,000 |
| March 31, 2006 | 1,000,000 |
| June 30, 2006 | 1,000,000 |
| September 30, 2006 | 1,000,000 |
| December 31, 2006 | 64,607,143 |
| March 31, 2007 | 64,607,143 |
| June 30, 2007 | 64,607,143 |
| September 30, 2007 | 64,607,143 |

| | |
|---|---|
| December 31, 2007 | 64,857,143 |
| March 31, 2008 | 64,857,143 |
| Tranche B Maturity Date | 64,857,142 |

(b) In the event and on each occasion that any Term Loan Commitments shall be reduced or shall expire or terminate other than as a result of the making of a Term Loan, the installments payable on each Term Loan Repayment Date shall be reduced pro rata by an aggregate amount equal to the amount of such reduction, expiration or termination.

(c) To the extent not previously paid, all Tranche A Term Loans and Tranche B Term Loans shall be due and payable on the Tranche A Maturity Date and Tranche B Maturity Date, respectively, together with accrued and unpaid interest on the principal amount to be paid to but excluding the date of payment.

(d) All repayments pursuant to this Section 2.11 shall be subject to Section 2.16, but shall otherwise be without premium or penalty.





SECTION 2.12. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) in the case of Eurocurrency Loans, or written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) at least one Business Day prior to the date of prepayment in the case of ABR Loans, to the Administrative Agent before 10:00a.m., California time; provided, however, that each partial prepayment shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000.

(b) Optional prepayments of Term Loans shall be allocated pro rata between the then-outstanding Tranche A Term Loans and Tranche B Term Loans and applied first, in chronological order to the installments of principal scheduled to be paid within 12 months after such prepayment and second, pro rata against the remaining scheduled installments of principal due in respect of the Tranche A Term Loans and Tranche B Term Loans under Sections 2.11(a)(i) and (ii), respectively.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to Section 2.16 but otherwise without premium or penalty. All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.13. Mandatory Prepayments. (a) In the event of any termination of all the Revolving Credit Commitments, the Borrower shall, on the date of such termination, repay or prepay all its outstanding Revolving Credit Borrowings and all outstanding Swingline Loans and replace all outstanding Letters of Credit and/or deposit an amount equal to the L/C Exposure in cash in a cash collateral account established with the Collateral Agent for the benefit of the Secured Parties. If (i) at any time as a result of any partial reduction of the Revolving Credit Commitments, or (ii) on any Calculation Date as a result of fluctuations in exchange rates, the Aggregate Revolving Credit Exposure would exceed the Total Revolving Credit Commitment after giving effect thereto, then the Borrower shall, on the date of such reduction or termination or on such Calculation Date, as the case may be, repay or prepay Revolving Credit Borrowings or Swingline Loans (or a combination thereof) and/or replace or cash collateralize outstanding Letters of Credit in an amount sufficient to eliminate such excess. In addition, if on any date the sum of the Aggregate Revolving Credit Exposure and the Pari Passu Exposure would exceed the Total Revolving Credit Commitment, then on such date the Borrower shall either (i) repay or prepay Revolving Credit Borrowings or Swingline Loans (or a combination thereof) and replace or cash collateralize outstanding Letters of Credit and/or (ii) reduce the Pari Passu Exposure, in either case in an aggregate amount sufficient

to eliminate such excess.





(b) Not later than the fifth Business Day following the completion of any Asset Sale, the Borrower shall apply 100% of the Net Cash Proceeds received with respect thereto to prepay outstanding Term Loans in accordance with Section 2.13(g).

(c) Subject to paragraph (j) below, in the event and on each occasion that an Equity Issuance occurs, the Borrower shall, substantially simultaneously with (and in any event not later than the fifth Business Day next following) the occurrence of such Equity Issuance, apply 75% of the Net Cash Proceeds therefrom to prepay outstanding Term Loans in accordance with Section 2.13(g); provided, however, that in the event the Leverage Ratio on the date of such Equity Issuance (and after giving effect thereto and to the use of the proceeds thereof) is less than 3.0 to 1.0, such amount shall be reduced to 50%.

(d) Subject to paragraph (j) below, no later than the earlier of (i) 100 days after the end of each fiscal year of the Borrower, commencing with the fiscal year ending on December 31, 2001, and (ii) the date on which the financial statements with respect to such period are delivered pursuant to Section 5.04(a), the Borrower shall prepay outstanding Term Loans in accordance with Section 2.13(g) in an aggregate principal amount equal to 75% of Excess Cash Flow for the fiscal year then ended; provided, however, that in the event the Leverage Ratio at the end of such fiscal year was less than 3.0 to 1.0, such amount shall be reduced to 50%.

(e) Subject to paragraph (j) below, in the event that any Loan Party or any subsidiary of a Loan Party shall receive Net Cash Proceeds from (i) the issuance or other disposition of Indebtedness for money borrowed of any Loan Party or any subsidiary of a Loan Party (other than Indebtedness for money borrowed permitted pursuant to Section 6.01) or (ii) the establishment of the Receivables Program or any subsequent increase thereto, the Borrower shall, substantially simultaneously with (and in any event not later than the fifth Business Day next following) the receipt of such Net Cash Proceeds by such Loan Party or such subsidiary, apply an amount equal to 100% of such Net Cash Proceeds to prepay outstanding Term Loans in accordance with Section 2.13(g).

(f) Subject to paragraph (j) below, in the event that there shall occur any Casualty or Condemnation and, pursuant to the applicable Mortgage, the Casualty Proceeds or Condemnation Proceeds, as the case may be, are required to be used to prepay the Term Loans, then the Borrower shall apply an amount up to 100% (as determined pursuant to the applicable Mortgage) of such Casualty Proceeds or Condemnation Proceeds, as the case may be, to prepay outstanding Term Loans in accordance with Section 2.13(g).

(g) Mandatory prepayments of outstanding Term Loans under this Agreement shall be allocated pro rata between the then-outstanding Tranche A Term Loans and Tranche B Term Loans, and, subject to paragraph (i) below, applied pro rata against the remaining scheduled installments of principal due in respect of Tranche A Term Loans and Tranche B Term Loans under Sections 2.11(a)(i) and (ii), respectively.





(h) The Borrower shall deliver to the Administrative Agent, at the time of each prepayment required under this Section 2.13, (i) a certificate signed by a Financial Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) to the extent practicable, at least three days prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date, the Type of each Loan being prepaid and the principal amount of each Loan (or portion thereof) to be

prepaid. All prepayments of Borrowings under this Section 2.13 shall be subject to Section 2.16, but shall otherwise be without premium or penalty.

(i) Until the payment in full of the Tranche A Term Loans, any Tranche B Lender may elect, by notice to the Administrative Agent in writing (or by telephone or telecopy promptly confirmed in writing) at least two Business Days prior to any prepayment of Tranche B Term Loans required to be made by the Borrower for the account of such Lender pursuant to this Section 2.13, to cause all or a portion of such prepayment to be allocated instead to the then-outstanding Tranche A Term Loans to be applied pro rata against the remaining scheduled installments of principal due in respect thereof under Section 2.11(a)(i).

(j) The provisions of paragraphs (c), (d), (e) and (f) of this Section 2.13 shall cease to be effective upon the Borrower's obtaining, and so long as the Borrower maintains, Investment Grade Ratings.

SECTION 2.14. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision of this Agreement, if any Change in Law shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender or any Issuing Bank (except any such reserve requirement which is reflected in the Adjusted LIBO Rate) or shall impose on such Lender or such Issuing Bank or the London interbank market (or other relevant interbank market) any other condition affecting this Agreement or Eurocurrency Loans made by such Lender or any Letter of Credit or participation therein, and the result of any of the foregoing shall be to increase the cost to such Lender or such Issuing Bank of making or maintaining any Eurocurrency Loan or increase the cost to any Lender of issuing or maintaining any Letter of Credit or purchasing or maintaining a participation therein or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender or such Issuing Bank to be material, then the Borrower will pay to such Lender or such Issuing Bank, as the case may be, upon demand such additional amount or amounts as will compensate such Lender or Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or Issuing Bank shall have determined that any Change in Law regarding capital adequacy has or would have the effect of reducing the rate of return on such Lender's or Issuing Bank's capital or on the capital of such Lender's or Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made or participations in Letters of Credit purchased by such Lender pursuant hereto or the Letters of Credit issued by such Issuing Bank pursuant hereto to a level below that





which such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or Issuing Bank's policies and the policies of such Lender's or Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Lender or Issuing Bank to be material, then from time to time the Borrower shall pay to such Lender or Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or Issuing Bank or its holding company, as applicable, as specified in paragraph (a) or (b) above shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or Issuing Bank the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure or delay on the part of any Lender or any Issuing Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation; provided that the Borrower shall not be under any obligation to compensate any Lender or

Issuing Bank under paragraph (a) or (b) above with respect to increased costs or reductions with respect to any period prior to the date that is 90 days prior to such request if such Lender or Issuing Bank knew or could reasonably have been expected to know of the circumstances giving rise to such increased costs or reductions and of the fact that such circumstances would result in a claim for increased compensation by reason of such increased costs or reductions; provided further that the foregoing limitation shall not apply to any increased costs or reductions arising out of the retroactive application of any Change in Law within such 90-day period. The protection of this Section shall be available to each Lender and Issuing Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, agreement, guideline or other change or condition that shall have occurred or been imposed.

(e) This Section 2.14 shall not apply to any Change in Law with respect to Taxes, including, but not limited to, changes in the rate of Taxes pertaining to any particular Lender.

SECTION 2.15. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if (i) any Change in Law shall make it unlawful for any Lender to make or maintain any Eurocurrency Loan or to give effect to its obligations as contemplated hereby with respect to any Eurocurrency Loan, or shall make it unlawful for any Issuing Bank to issue Letters of Credit denominated in an Alternative Currency, or (ii) there shall have occurred any change in national or international financial, political or



economic conditions (including the imposition of or any change in exchange controls) or currency exchange rates which would make it impracticable for any Issuing Bank to issue Letters of Credit denominated in such Alternative Currency, then, by written notice to the Borrower and to the Administrative Agent:

(i) such Lender may declare that Eurocurrency Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods) and ABR Loans will not thereafter (for such duration) be converted into Eurocurrency Loans, whereupon any request for a Eurocurrency Borrowing (or to convert an ABR Borrowing to a Eurocurrency Borrowing or to continue a Eurocurrency Borrowing, as the case may be, for an additional Interest Period) shall, as to such Lender only, be deemed a request for an ABR Loan (or a request to continue an ABR Loan as such for an additional Interest Period or to convert a Eurocurrency Loan into an ABR Loan, as the case may be), unless such declaration shall be subsequently withdrawn;

(ii) such Lender may require that all outstanding Eurocurrency Loans made by it be converted to ABR Loans in which event all such Eurocurrency Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below; and

(iii) in the case of any such change affecting an Issuing Bank's ability to issue Letters of Credit denominated in an Alternative Currency, such Issuing Bank may declare that Letters of Credit will not thereafter be issued in the affected Alternative Currency or Currencies, whereupon the affected Alternative Currency or Currencies shall be deemed (for the duration of such unlawfulness and with respect to such Issuing Bank only) not to constitute an Alternative Currency.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal that would otherwise have been applied to repay the Eurocurrency Loans that would have been made by such Lender or the converted Eurocurrency Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurocurrency Loans.

(b) For purposes of this Section 2.15, a notice to the Borrower by any

Lender shall be effective as to each Eurocurrency Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurocurrency Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

SECTION 2.16. Indemnity. The Borrower shall indemnify each Lender against any loss or expense that such Lender may sustain or incur as a consequence of (a) any event, other than a default by such Lender in the performance of its obligations hereunder, which results in (i) such Lender receiving or being deemed to receive any amount on account of the principal of any Eurocurrency Loan prior to the end of the





Interest Period in effect therefor, (ii) the conversion of any Eurocurrency Loan to an ABR Loan, or the conversion of the Interest Period with respect to any Eurocurrency Loan, in each case other than on the last day of the Interest Period in effect therefor, or (iii) any Eurocurrency Loan to be made by such Lender (including any Eurocurrency Loan to be made pursuant to a conversion or continuation under Section 2.10) not being made after notice of such Loan shall have been given by the Borrower hereunder (any of the events referred to in this clause (a) being called a "Breakage Event") or (b) any default in the making of any payment or prepayment required to be made hereunder. In the case of any Breakage Event, such loss shall include an amount equal to the excess, as reasonably determined by such Lender, of (i) its cost of obtaining funds for the Eurocurrency Loan that is the subject of such Breakage Event for the period from the date of such Breakage Event to the last day of the Interest Period in effect (or that would have been in effect) for such Loan over (ii) the amount of interest likely to be realized by such Lender in redeploying the funds released or not utilized by reason of such Breakage Event for such period. A certificate of any Lender setting forth any amount or amounts which such Lender is entitled to receive pursuant to this Section 2.16 shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.17. Pro Rata Treatment. Except as provided below in this Section 2.17 with respect to Swingline Loans and as required under Sections 2.13(i) and 2.15, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Term Loan Commitments or the Revolving Credit Commitments and each conversion of any Borrowing to or continuation of any Borrowing as a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). For purposes of determining the available Revolving Credit Commitments of the Lenders at any time, each outstanding Swingline Loan shall be deemed to have utilized the Revolving Credit Commitments of the Lenders (including those Lenders which shall not have made Swingline Loans) pro rata in accordance with such respective Revolving Credit Commitments. Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole dollar amount.

SECTION 2.18. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower or any other Loan Party, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans or L/C Disbursement as a result of which the unpaid principal portion of its Loans and participations in L/C Disbursements shall be proportionately less than the unpaid principal portion of the Loans and participations in L/C Disbursements of any other Lender, it shall be deemed simultaneously to have

purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Loans and L/C Exposure of such other Lender, so that the aggregate unpaid principal amount of the Loans and L/C Exposure and participations in Loans and L/C Exposure held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Loans and L/C Exposure then outstanding as the principal amount of its Loans and L/C Exposure prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans and L/C Exposure outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.18 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Loan or L/C Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.19. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any L/C Disbursement or any Fees or other amounts) hereunder and under any other Loan Document not later than 10:00 a.m., California time, on the date when due in immediately available funds, without setoff, defense or counterclaim. Each such payment (other than (i) Issuing Bank Fees, which shall be paid directly to the applicable Issuing Bank, and (ii) principal of and interest on Swingline Loans, which shall be paid directly to the Swingline Lender except as otherwise provided in Section 2.21(e)) shall be made to the Administrative Agent at its offices at Bank of America, N.A., Agency Administrative Services-West, 1850 Gateway Blvd., 5th Floor, Concord, CA, 94520, Mail Code CA4-706-05-09, Attention of: Kathy Eddy; ABA #111 000 012, Dallas, Texas, Account No. 3750836479, Ref: Flowserve Corporation. Each such payment (other than L/C Disbursements denominated in an Alternative Currency and Issuing Bank Fees with respect to Letters of Credit dominated in an Alternative Currency, which shall be made in the applicable Alternative Currency) shall be made in dollars.

(b) Except as otherwise expressly provided herein, whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.20. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower or any Loan Party hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower or any Loan Party shall be required by law to deduct any Indemnified Taxes or Other Taxes from such payments, then





(i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or such Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or such Loan Party shall make such deductions and (iii) the Borrower or such Loan Party shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant

Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment on account of any obligation of the Borrower or any Loan Party hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable out-of-pocket expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower or any other Loan Party to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.21. Assignment of Commitments Under Certain Circumstances; Duty to Mitigate. (a) In the event (i) any Lender or Issuing Bank delivers a certificate requesting compensation pursuant to Section 2.14, (ii) any Lender or Issuing Bank delivers a notice described in Section 2.15 or (iii) the Borrower is required to pay any additional amount to any Lender or Issuing Bank or any Governmental Authority on account of any Lender or Issuing Bank pursuant to Section 2.20, the Borrower may, at its sole expense and effort (including with respect to the processing and recordation fee referred to in Section 9.04(b)), upon notice to such Lender or Issuing Bank and the





Administrative Agent, require such Lender or Issuing Bank to transfer and assign, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all of its interests, rights and obligations under this Agreement to an assignee that shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (x) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority having jurisdiction, (y) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Credit Commitment is being assigned, of the Issuing Banks and the Swingline Lender), which consent shall not unreasonably be withheld, and (z) the Borrower or such assignee shall have paid to the affected Lender or Issuing Bank in immediately available funds an amount equal to the sum of the principal of and interest accrued to the date of such payment on the outstanding Loans or L/C Disbursements of such Lender or Issuing Bank, respectively, plus all Fees and other amounts accrued for the account of such Lender or Issuing Bank hereunder (including any amounts under Section 2.14 and Section 2.16); provided further that, if prior to any such transfer and assignment the circumstances or event that resulted in such Lender's or Issuing Bank's claim for compensation under Section 2.14 or notice under Section 2.15 or the amounts paid pursuant to Section 2.20, as the case may be, cease to cause such Lender or Issuing Bank to suffer increased costs or reductions in amounts received or receivable or reduction in return on capital, or cease to have the consequences specified in Section 2.15, or cease to result in amounts being payable under Section 2.20, as the case may be (including as a result of any action taken by such Lender or Issuing Bank pursuant to paragraph (b) below), or

if such Lender or Issuing Bank shall waive its right to claim further compensation under Section 2.14 in respect of such circumstances or event or shall withdraw its notice under Section 2.15 or shall waive its right to further payments under Section 2.20 in respect of such circumstances or event, as the case may be, then such Lender or Issuing Bank shall not thereafter be required to make any such transfer and assignment hereunder.

(b) If (i) any Lender or Issuing Bank shall request compensation under Section 2.14, (ii) any Lender or Issuing Bank delivers a notice described in Section 2.15 or (iii) the Borrower is required to pay any additional amount to any Lender or Issuing Bank or any Governmental Authority on account of any Lender or Issuing Bank, pursuant to Section 2.20, then such Lender or Issuing Bank shall use reasonable efforts (which shall not require such Lender or Issuing Bank to incur an unreimbursed loss or unreimbursed cost or expense or otherwise take any action inconsistent with its internal policies or legal or regulatory restrictions or suffer any disadvantage or burden deemed by it to be significant) (x) to file any certificate or document reasonably requested in writing by the Borrower or (y) to assign its rights and delegate and transfer its obligations hereunder to another of its offices, branches or affiliates, if such filing or assignment would reduce its claims for compensation under Section 2.14 or enable it to withdraw its notice pursuant to Section 2.15 or would reduce amounts payable pursuant to Section 2.20, as the case may be, in the future. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender or Issuing Bank in connection with any such filing or assignment, delegation and transfer.





SECTION 2.22. Swingline Loans. (a) Swingline Commitment. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, the Swingline Lender agrees to make loans to the Borrower, in dollars, at any time and from time to time on and after the Closing Date and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitments in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all Swingline Loans (other than Swingline Loans made pursuant to Section 2.22(c)) exceeding $25,000,000 or (ii) the sum of the Pari Passu Exposure and the Aggregate Revolving Credit Exposure exceeding the Total Revolving Credit Commitment. Except for Swingline Loans made pursuant to Section 2.22(c), each Swingline Loan shall be in a principal amount that is an integral multiple of $500,000. The Swingline Commitment may be terminated or reduced from time to time as provided herein. Within the foregoing limits, the Borrower may borrow, pay or prepay and reborrow Swingline Loans hereunder, subject to the terms, conditions and limitations set forth herein.

(b) Making of Swingline Loans. Except with respect to Swingline Loans made pursuant to Section 2.22(c) (as to which this Section 2.22(b) shall not apply), the Borrower shall notify the Administrative Agent by telecopy, or by telephone (confirmed by telecopy), not later than 10:00 a.m., California time, on the day of a proposed Swingline Loan. Such notice shall be delivered on a Business Day, shall be irrevocable and shall refer to this Agreement and shall specify the requested date (which shall be a Business Day) and amount of such Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any notice received from the Borrower pursuant to this paragraph (b). The Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with the Swingline Lender by 3:00 p.m., California time, on the date such Swingline Loan is so requested.

(c) Trade L/C Disbursements. If the Issuing Bank of any Trade Letters of Credit shall not have received from the Borrower the payment required to be made by Section 2.23(e) with respect to such Trade Letters of Credit within the time specified in such Section, such Issuing Bank will promptly notify the Administrative Agent and the Swingline Lender of the L/C Disbursement. The amount of such L/C Disbursement (or the Dollar Equivalent thereof, if denominated in an Alternative Currency) shall be deemed to constitute a Swingline Loan of the Swingline Lender made to the Borrower on the date of such L/C Disbursement and shall be deemed to have reduced the Trade L/C Exposure.

(d) Prepayment. The Borrower shall have the right at any time and from

time to time to prepay any Swingline Loan, in whole or in part, upon giving written or telecopy notice (or telephone notice promptly confirmed by written, or telecopy notice) to the Swingline Lender and to the Administrative Agent before 12:00 (noon), California time, on the date of prepayment at the Swingline Lender's address for notices specified on Schedule 2.01. All principal payments of Swingline Loans shall be accompanied by accrued interest on the principal amount being repaid to the date of payment.



(e) Interest. Each Swingline Loan shall be an ABR Loan and, subject to the provisions of Section 2.07, shall bear interest as provided in Section 2.06(a). Interest on each Swingline Loan shall be payable on the Interest Payment Date with respect thereto.

(f) Participations. If the Borrower does not fully repay a Swingline Loan on or prior to the due date therefor (whether by demand, acceleration or otherwise), the Swingline Lender shall promptly notify the Administrative Agent thereof (by telecopy or by telephone, confirmed in writing), and the Administrative Agent shall promptly notify each Revolving Credit Lender thereof (by telecopy or by telephone, confirmed in writing) and of its Pro Rata Percentage of such Swingline Loan. Upon such notice but without any further action, the Swingline Lender hereby agrees to grant to each Lender, and each Lender hereby agrees to acquire from the Swingline Lender, a participation in such defaulted Swingline Loan equal to such Lender's Pro Rata Percentage of the aggregate principal amount of such defaulted Swingline Loan. In furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Pro Rata Percentage of each Swingline Loan that is not repaid when due in accordance with Section 2.04(a) or Article VII. Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Credit Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.02(c) with respect to Loans made by such Lender (and Section 2.02(c) shall apply, mutatis mutandis, to the payment obligations of the Lenders) and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower (or other party liable for obligations of the Borrower) of any default in the payment thereof.

SECTION 2.23. Letters of Credit. (a) General. The Borrower may request the issuance of a Letter of Credit for its own account or the account of any wholly owned subsidiary of the Borrower (in which case the Borrower and such wholly owned subsidiary of the Borrower shall be co-applicants with respect to such Letter of Credit)



in a form acceptable to the Administrative Agent and the applicable Issuing Bank, at any time and from time to time while the Revolving Credit Commitments remain in effect. This Section shall not be construed to impose an obligation

upon any Issuing Bank to issue any Letter of Credit that is inconsistent with the terms and conditions of this Agreement.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. In order to request the issuance of a Letter of Credit (or to amend, renew or extend an existing Letter of Credit), the Borrower shall hand deliver, telecopy or send electronically to the applicable Issuing Bank and the Administrative Agent (two Business Days in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying whether such Letter of Credit is to be a Financial Letter of Credit, a Performance Letter of Credit or a Trade Letter of Credit (such designation to be subject to the satisfaction of the Administrative Agent, acting reasonably), the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) below), the amount of such Letter of Credit, the currency in which such Letter of Credit is to be denominated (which shall be dollars or, subject to Section 2.15, an Alternative Currency), the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if, and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that, after giving effect to such issuance, amendment, renewal or extension (i) the sum of the L/C Exposure and the Pari Passu Exposure shall not exceed $200,000,000, (ii) the Trade L/C Exposure shall not exceed $10,000,000 and (iii) the sum of the Aggregate Revolving Credit Exposure and the Pari Passu Exposure shall not exceed the Total Revolving Credit Commitment.

(c) Expiration Date. Each Trade Letter of Credit shall expire at the close of business on the earlier of the date that is 180 days after the date of issuance of such Letter of Credit and the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letter of Credit expires by its terms on an earlier date. Each Financial Letter of Credit shall expire at the close of business on the earlier of the date that is one year after the date of the issuance of such Letter of Credit and the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letter of Credit expires by its terms on an earlier date. Each Performance Letter of Credit shall expire at the close of business on the earlier of the date that is three years after the date of the issuance of such Letter of Credit and the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letter of Credit expires by its terms on an earlier date. Notwithstanding the foregoing, (i) one or more Performance Letters of Credit in an aggregate face amount not to exceed $20,000,000 at any time outstanding may expire on a date that is more than three years after the date of issuance thereof (but not later than five business days prior to the Revolving Credit Maturity Date) and (ii) one or more Financial Letters of Credit and/or Performance Letters of Credit may, upon the request of the Borrower, include a provision whereby such Letter of Credit shall be renewed automatically for additional consecutive periods of 12 months or less





(but not beyond the date that is five Business Days prior to the Revolving Credit Maturity Date) unless the applicable Issuing Bank notifies the beneficiary thereof at least 30 days prior to the then-applicable expiration date that such Letter of Credit will not be renewed.

(d) Participations. By the issuance of a Standby Letter of Credit and without any further action on the part of the applicable Issuing Bank or the Lenders, the applicable Issuing Bank hereby grants to each Revolving Credit Lender, and each such Lender hereby acquires from the applicable Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Percentage of the aggregate amount available to be drawn under such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the applicable Issuing Bank, such Lender's Pro Rata Percentage of each L/C Disbursement made by such Issuing Bank in respect of a Standby Letter of Credit and not reimbursed by the Borrower (or, if applicable, another party pursuant to its obligations under any other Loan Document) forthwith on the date due as provided in Section 2.02(f), in dollars, notwithstanding that such L/C

Disbursement may be denominated in an Alternative Currency. Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Standby Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If an Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, the Borrower shall pay to the Administrative Agent an amount equal to such L/C Disbursement not later than two hours after the Borrower shall have received notice from such Issuing Bank that payment of such draft will be made, or, if the Borrower shall have received such notice later than 10:00 a.m., California time, on any Business Day, not later than 10:00 a.m., California time, on the immediately following Business Day.

(f) Obligations Absolute. The Borrower's obligations to reimburse L/C Disbursements as provided in paragraph (e) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or any Loan Document, or any term or provision therein;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or any Loan Document;

(iii) the existence of any claim, setoff, defense or other right that the Borrower, any other party guaranteeing, or otherwise obligated with, the Borrower, any Subsidiary or other Affiliate thereof or any other person may at





any time have against the beneficiary under any Letter of Credit, any Issuing Bank, the Administrative Agent or any Lender or any other person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the applicable Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act or omission to act or delay of any kind of any Issuing Bank, the Lenders, the Administrative Agent or any other person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Without limiting the generality of the foregoing, it is expressly understood and agreed that the absolute and unconditional obligation of the Borrower hereunder to reimburse L/C Disbursements will not be excused by the gross negligence or wilful misconduct of any Issuing Bank. However, the foregoing shall not be construed to excuse any Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by such Issuing Bank's gross negligence or wilful misconduct in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof; it is understood that each Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary and, in making any payment under any Letter of Credit (i) an Issuing Bank's exclusive

reliance on the documents presented to it under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (ii) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute wilful misconduct or gross negligence of an Issuing Bank.

(g) Disbursement Procedures. The applicable Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Issuing Bank shall as promptly as possible



give telephonic notification, confirmed by telecopy, to the Administrative Agent and the Borrower of such demand for payment and whether such Issuing Bank has made or will make an L/C Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Credit Lenders with respect to any such L/C Disbursement. The Administrative Agent shall promptly give each Revolving Credit Lender notice thereof.

(h) Interim Interest. If an Issuing Bank shall make any L/C Disbursement in respect of a Standby Letter of Credit, then, unless the Borrower shall reimburse such L/C Disbursement in full on such date, the unpaid amount thereof shall bear interest for the account of such Issuing Bank, for each day from and including the date of such L/C Disbursement, to but excluding the earlier of the date of payment by the Borrower or the date on which interest shall commence to accrue thereon as provided in Section 2.02(f), at the rate per annum that would apply to such amount if such amount were an ABR Revolving Loan. If such amount is denominated in an Alternative Currency, then the interest rate applicable thereto shall be determined by such Issuing Bank to be the average rate (rounded upwards, if necessary, to the next 1/16 of 1%) at which overnight deposits in such Alternative Currency are obtainable by such Issuing Bank on such date in the relevant interbank market plus the Applicable Percentage for Eurocurrency Loans at the time.

(i) Resignation or Removal of an Issuing Bank. An Issuing Bank may resign at any time by giving 180 days' prior written notice to the Administrative Agent, the Lenders and the Borrower, and may be removed at any time by the Borrower by notice to the Issuing Bank, the Administrative Agent and the Lenders. Subject to the next succeeding paragraph, upon the acceptance of any appointment as an Issuing Bank hereunder by a Lender that shall agree to serve as successor Issuing Bank, such successor shall succeed to and become vested with all the interests, rights and obligations of the retiring Issuing Bank and the retiring Issuing Bank shall be discharged from its obligations to issue additional Letters of Credit hereunder. At the time such removal or resignation shall become effective, the Borrower shall pay all accrued and unpaid fees pursuant to Section 2.05(c)(ii). The acceptance of any appointment as an Issuing Bank hereunder by a successor Lender shall be evidenced by an agreement entered into by such successor, in a form satisfactory to the Borrower and the Administrative Agent, and, from and after the effective date of such agreement, (i) such successor Lender shall have all the rights and obligations of the previous Issuing Bank under this Agreement and the other Loan Documents and (ii) references herein and in the other Loan Documents to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the resignation or removal of an Issuing Bank hereunder, the retiring Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such resignation or removal, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, the Borrower shall, on the Business Day it receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Standby Letters of Credit) thereof and of the amount to be deposited, deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash equal to the L/C Exposure as of such date. Such deposit shall be held by the Collateral Agent as collateral for the payment and performance of the Obligations. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits in Permitted Investments, which investments shall be made at the option and sole discretion of the Collateral Agent, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall (i) automatically be applied by the Administrative Agent to reimburse the Issuing Banks for L/C Disbursements for which they have not been reimbursed, (ii) be held for the satisfaction of the reimbursement obligations of the Borrower for the L/C Exposure at such time and (iii) if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Credit Lenders holding participations in outstanding Standby Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Standby Letters of Credit), be applied to satisfy the Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

(k) Additional Issuing Banks. The Borrower may, at any time and from time to time with the consent of the Administrative Agent (which consent shall not be unreasonably withheld) and such Lender, designate one or more additional Lenders to act as an issuing bank under the terms of the Agreement. Any Lender designated as an issuing bank pursuant to this paragraph (k) shall be deemed to be an "Issuing Bank" (in addition to being a Lender) in respect of Letters of Credit issued or to be issued by such Lender, and, with respect to such Letters of Credit, such term shall thereafter apply to the other Issuing Banks and such Lender.

## ARTICLE III

## Representations and Warranties

The Borrower represents and warrants to the Administrative Agent, the Collateral Agent, the Issuing Banks and each of the Lenders that:

SECTION 3.01. Organization; Powers. The Borrower and each of the Subsidiaries (a) (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has all requisite power and authority to



own its property and assets and to carry on its business as now conducted and as proposed to be conducted and (iii) is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where any such failure, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, and (b) has the power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated hereby to which it is or will be a party and, in the case of the Borrower, to borrow hereunder.

SECTION 3.02. Authorization. The Transactions (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Subsidiary, (B) any order of any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which the Borrower or any Subsidiary is a party or by which any of them or any of their property is or may be bound, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower or any Subsidiary (other than any Lien created hereunder or under the Security Documents).

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the each Loan party thereto will constitute, a legal, valid and binding obligation of such Loan Party enforceable against such Loan Party in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except for (a) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, (b) recordation of the Mortgages and (c) such as have been made or obtained and are in full force and effect.

SECTION 3.05. Financial Statements. (a) The Borrower has heretofore furnished to the Lenders its, IDP's and Invatec's consolidated balance sheets and statements of income, stockholders' equity (in the case of the Borrower) and cash flows (i) as of and for the fiscal year ended December 31, 1999, audited by and accompanied by the opinion of Ernst & Young LLP, independent public accountants in the case of the Borrower, PricewaterhouseCoopers LLP, independent public accountants in the case of IDP, and Arthur Andersen LLP, independent public accountants in the case of Invatec, and (ii) in the case of the Borrower and IDP, as of and for the fiscal quarter and the



portion of the fiscal year ended March 31, 2000, certified by its chief financial officer. Such financial statements present fairly the financial condition and results of operations and cash flows of the Borrower and its consolidated Subsidiaries, IDP and Invatec, as the case may be, as of such dates and for such periods. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries, IDP and Invatec, as the case may be, as of the dates thereof. Such financial statements were prepared in accordance with GAAP.

(b) The Borrower has heretofore delivered to the Lenders its unaudited pro forma consolidated balance sheet and statements of income as of December 31, 1999, prepared giving effect to the Transactions as if they had occurred, with respect to such balance sheet, on such date and, with respect to such other financial statements, on the first day of the 12-month period ending on such date. Such pro forma financial statements have been prepared in good faith by the Borrower, based on the assumptions used to prepare the pro forma financial information contained in the Confidential Information Memorandum (which assumptions are believed by the Borrower on the date hereof and on the Closing Date to be reasonable), are based on the best information available to the Borrower as of the date of delivery thereof, accurately reflect all adjustments required to be made to give effect to the Transactions and present fairly on a pro forma basis the estimated consolidated financial position of the Borrower and its consolidated Subsidiaries as of such date and for such period, assuming that the Transactions had actually occurred at such date or at the beginning of such period, as the case may be.

SECTION 3.06. No Material Adverse Change. Since December 31, 1999 and after giving effect to the Acquisition, no event, change or condition has occurred that has had, or could reasonably be expected to have, a Material Adverse Effect.

SECTION 3.07. Title to Properties; Possession Under Leases. (a) Each of the Borrower and the Subsidiaries has valid title to, or valid leasehold interests in, all its material properties and assets (including all Mortgaged Property), except for defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02.

(b) Each of the Borrower and the Subsidiaries has complied with all material obligations under all material leases to which it is a party and, to the Borrower's knowledge, all such leases are in full force and effect.

SECTION 3.08. Subsidiaries. Schedule 3.08 sets forth as of the Closing Date a list of all Subsidiaries and the percentage ownership interest of the Borrower therein. The shares of capital stock or other ownership interests so indicated on Schedule 3.08 are fully paid and non-assessable and are owned by the Borrower, directly or indirectly, free and clear of all Liens (other than Liens created under the Security Documents).



SECTION 3.09. Litigation; Compliance with Laws. (a) Except as set forth on Schedule 3.09, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) that involve any Loan Document or the Transactions or (ii) which could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(b) None of the Borrower or any of the Subsidiaries or any of their respective material properties or assets is in violation of any law, rule or regulation (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits) or any restrictions of record or agreements affecting the Mortgaged Property, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. Agreements. (a) Neither the Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Federal Reserve Regulations. (a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation T, U or X.

SECTION 3.12. Investment Company Act; Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is (a) an "investment company" as

defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. Use of Proceeds. The Borrower will use the proceeds of the Loans and will request the issuance of Letters of Credit only for the purposes specified in the preamble to this Agreement.



SECTION 3.14. Tax Returns. Each of the Borrower and the Subsidiaries has filed or caused to be filed all Federal, state, local and foreign tax returns or materials required to have been filed by it and has paid or caused to be paid all taxes due and payable by it and all material written assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, shall have set aside on its books adequate reserves.

SECTION 3.15. No Material Misstatements. None of (a) the Confidential Information Memorandum or (b) any other information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Borrower represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

SECTION 3.16. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder, except where such non-compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be expected to result in a Material Adverse Effect. As of the date hereof and the Closing Date, the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than $10,000,000 the fair market value of the assets of such Plan.

SECTION 3.17. Environmental Matters. (a) Except as set forth in Schedule 3.17 and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has received notice of any claim with respect to any Environmental Liability or (iii) knows of any basis for any Environmental Liability to which it is or reasonably could become subject.

(b) Since the date of this Agreement, there has been no change in the status of the matters disclosed on Schedule 3.17 that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.18. Insurance. Schedule 3.18 sets forth a true, complete and correct description of all insurance maintained by the Borrower or by the Borrower for its

Subsidiaries as of the date hereof and the Closing Date. As of each such date, such insurance is in full force and effect and all premiums have been duly paid. The Borrower and its Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

SECTION 3.19. Security Documents. (a) Prior to the Release Date, the Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when the Collateral is delivered to the Collateral Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the pledgors thereunder in such Collateral, in each case prior and superior in right to any other person.

(b) Prior to the Release Date, the Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the offices specified on Schedule 6 to the Perfection Certificate, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral (other than the Intellectual Property, as defined in the Security Agreement), in each case prior and superior in right to any other person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, prior to the Release Date, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in the Intellectual Property (as defined in the Security Agreement), in each case prior and superior in right to any other person (it being understood that subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a lien on registered trademarks, trademark applications and copyrights acquired by the grantors after the date hereof).

(d) Prior to the Release Date, the Mortgages are effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Property thereunder and the proceeds thereof, and when the Mortgages are filed in the offices specified on Schedule 3.19(d), the Mortgages shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Mortgaged Property and the proceeds thereof, in each case prior and superior in right to any other person, other than with respect to the rights of persons pursuant to Liens expressly permitted by Section 6.02.

SECTION 3.20. Location of Real Property and Leased Premises. (a) Schedule 3.20(a) lists completely and correctly as of the Closing Date all real property owned by the Borrower and the Domestic Subsidiaries (excluding sales offices) and the addresses thereof.



(b) Schedule 3.20(b) lists completely and correctly as of the Closing Date all real property leased by the Borrower and the Domestic Subsidiaries (excluding sales offices) and the addresses thereof.

(c) Schedule 3.20(c) sets forth certain real property (other than Consent Decree Assets) of the Borrower and the Domestic Subsidiaries which, as of the Closing Date, the Borrower intends to sell or otherwise dispose of following the Closing Date (the "Designated Properties").

SECTION 3.21. Labor Matters. As of the date hereof and the Closing Date, there are no strikes, lockouts or slowdowns against the Borrower or any Subsidiary pending or, to the knowledge of the Borrower, threatened. Except with respect to any violations that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, the hours worked

by and payments made to employees of the Borrower and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. All payments due from the Borrower or any Subsidiary, or for which any claim may be made against the Borrower or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of the Borrower or such Subsidiary except where the failure to make or accrue any such payments, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Borrower or any Subsidiary is bound.

SECTION 3.22. Solvency. Immediately after the consummation of the Transactions to occur on the Closing Date and immediately following the making of each Loan and after giving effect to the application of the proceeds of each Loan, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.



## ARTICLE IV

## Conditions of Lending

The obligations of the Lenders to make Loans and of the Issuing Banks to issue Letters of Credit hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Credit Events. On the date of each Borrowing, including each Borrowing of a Swingline Loan, and on the date of each issuance, amendment, extension or renewal of a Letter of Credit (each such event being called a "Credit Event"):

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03 (or such notice shall have been deemed given in accordance with Section 2.03) or, in the case of the issuance, amendment, extension or renewal of a Letter of Credit, the applicable Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance, amendment, extension or renewal of such Letter of Credit as required by Section 2.23(b) or, in the case of the Borrowing of a Swingline Loan, the Swingline Lender and the Administrative Agent shall have received a notice requesting such Swingline Loan as required by Section 2.22(b).

(b) The representations and warranties set forth in Article III hereof and in each other Loan Document shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) The Borrower and each other Loan Party shall be in compliance with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Credit Event, no Event of Default or Default shall have occurred and be continuing.

Each Credit Event shall be deemed to constitute a representation and warranty by the Borrower on the date of such Credit Event as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. First Credit Event. On the Closing Date:

(a) The Administrative Agent shall have received, on behalf of itself, the Lenders and the Issuing Banks, a favorable written opinion of (i) Shearman & Sterling, counsel for the Borrower, substantially to the effect set forth in Exhibit I-1, (ii) John M. Nanos, Senior Associate General Counsel of the Borrower, substantially to the effect set forth in Exhibit I-2, and (iii) each local counsel listed on Schedule 4.02(a), substantially to the effect set forth in Exhibit I-3, in each case (A) dated the Closing Date, (B) addressed to the Issuing Banks, the Administrative Agent and the Lenders, and (C) covering such other matters relating to the Loan Documents and the Transactions as the Agents shall

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reasonably request, and the Borrower hereby requests such counsel to deliver such opinions.

(b) All legal matters incident to this Agreement, the Borrowings and extensions of credit hereunder and the other Loan Documents shall be satisfactory to the Lenders, to the Issuing Banks and to the Agents.

(c) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Loan Party, certified (to the extent relevant) as of a recent date by the Secretary of State of the state of its organization, and (to the extent possible) a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary (or similar officer) of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws or articles of association of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such person is a party and, in the case of the Borrower, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Loan Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders, the Issuing Banks or the Agents may reasonably request.

(d) The Administrative Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(e) The Administrative Agent shall have received all Fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced at least 1 Business Day prior to the Closing Date, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder or under any other Loan Document.

(f) The Pledge Agreement shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, and all the outstanding capital stock of the Subsidiaries (other than Inactive Subsidiaries) shall have been duly and validly pledged thereunder to the

Collateral Agent for the ratable benefit of the Secured Parties and certificates representing such shares, accompanied by instruments of transfer and stock powers endorsed in blank, shall be in the actual possession of the Collateral Agent (except with respect to Foreign Subsidiaries, certificates for which (to the extent available under applicable law) shall be delivered to the Collateral Agent within 60 days following the Closing Date); provided that to the extent to do so would cause adverse tax consequences to the Borrower, (i) neither the Borrower nor any Domestic Subsidiary shall be required to pledge more than 65% of the voting stock of any Foreign Subsidiary and (ii) no Foreign Subsidiary shall be required to pledge the capital stock of any of its Subsidiaries.

(g) The Security Agreement shall have been duly executed by the Loan Parties party thereto and shall have been delivered to the Collateral Agent and shall be in full force and effect on such date and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Collateral Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral (subject to any Lien expressly permitted by Section 6.02) described in such agreement shall have been delivered to the Collateral Agent.

(h) The Collateral Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties in the states (or other jurisdictions) in which the chief executive office of each such person is located, any offices of such persons in which records have been kept relating to accounts receivable and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Collateral Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been released.

(i) The Collateral Agent shall have received a Perfection Certificate with respect to the Loan Parties dated the Closing Date and duly executed by a Responsible Officer of the Borrower.

(j)(i) Each of the Security Documents, in form and substance satisfactory to the Lenders, relating to each of the Mortgaged Properties shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, (ii) each of such Mortgaged Properties shall not be subject to any Lien other than those permitted under Section 6.02, (iii) each of such Security Documents shall have been filed and recorded in the recording office as specified on Schedule 3.19(d) (or a lender's title insurance policy, in form and substance acceptable to the Collateral Agent, insuring such Security Document as a first lien on such Mortgaged Property (subject to any Lien permitted by Section 6.02) shall have been received by the Collateral Agent)



and, in connection therewith, the Collateral Agent shall have received evidence satisfactory to it of each such filing and recordation and (iv) the Collateral Agent shall have received such other documents, including a policy or policies of title insurance issued by a nationally recognized title insurance company, together with such endorsements, coinsurance and reinsurance as may be requested by the Collateral Agent and the Lenders, insuring the Mortgages as valid first liens on the Mortgaged Properties, free of Liens other than those

permitted under Section 6.02, together with such surveys, abstracts, appraisals and legal opinions required to be furnished pursuant to the terms of the Mortgages or as reasonably requested by the Collateral Agent or the Lenders.

(k) The Guarantee Agreement shall have been duly executed by the parties thereto, shall have been delivered to the Collateral Agent and shall be in full force and effect; provided that to the extent to do so would cause adverse tax consequences to the Borrower, no Foreign Subsidiary shall be required to guarantee any obligation of the Borrower or any Domestic Subsidiary.

(l) The Indemnity, Subrogation and Contribution Agreement shall have been duly executed by the parties thereto, shall have been delivered to the Collateral Agent and shall be in full force and effect.

(m) The Administrative Agent shall have received a copy of, or a certificate as to coverage under, the insurance policies required by Section 5.02 and the applicable provisions of the Security Documents, each of which shall be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement and to name the Collateral Agent as additional insured, in form and substance satisfactory to the Agents.

(n) The Lenders shall be reasonably satisfied as to the amount and nature of any environmental exposures to which the Borrower or any of the Subsidiaries may be subject and with the Borrower's plans with respect thereto.

(o) The Acquisition shall be consummated simultaneously with the initial Credit Event in accordance with applicable law and the Purchase Agreement (without giving effect to any material waiver or modification thereof not approved by the Lenders); and (i) the Lenders shall be satisfied with any changes from the pro forma capitalization and structure described in the Confidential Information Memorandum and (ii) the sources and uses of funds to finance the Acquisition shall be consistent with those described in the Confidential Information Memorandum or, if not so consistent, shall otherwise be reasonably satisfactory to the Lenders.

(p) The Borrower and FFBV, respectively, shall have received (i) $285,899,400 in gross cash proceeds from the issuance of the Dollar Subordinated Notes and (ii) euro 98,586,000 in gross cash proceeds from the issuance of the Euro Subordinated Notes in a public offering or in a Rule 144A or other private placement to one or more holders reasonably satisfactory to the



Agents, and the terms and conditions of the Subordinated Notes shall be materially consistent with the terms and conditions described in Confidential Information Memorandum.

(q) The Existing Debt shall have been repaid in full, all commitments thereunder terminated and all guarantees thereof and security therefor released and, after giving effect to the Transactions and the other transactions contemplated hereby, the Borrower and its Subsidiaries shall have outstanding no Indebtedness or preferred stock other than (i) Indebtedness under the Loan Documents, (ii) the Subordinated Notes and (iii) other Indebtedness set forth on Schedules 6.01(a), (d), (e), (f), (g) and 6.04.

(r) The Lenders shall have received audited consolidated balance sheets and related statements of income, stockholders' equity (in the case of the Borrower) and cash flows of the Borrower and IDP for the 1997, 1998 and 1999 fiscal years (which audits for IDP shall be reasonably satisfactory to the Lenders) and of Invatec for the 1999 fiscal year.

(s) The Lenders shall have received a pro forma income statement and a pro forma balance sheet of the Borrower for the 1999 fiscal year, after giving effect to the Transactions and the other transactions contemplated hereby, which financial statements shall not be materially inconsistent with those previously provided to the Lenders.

(t) There shall be no litigation or administrative proceeding that could reasonably be expected to have a Material Adverse Effect.

(u) All requisite Governmental Authorities and third parties shall have approved or consented to the Transactions and the other transactions contemplated hereby to the extent required, all applicable appeal periods shall have expired and there shall be no governmental or judicial action, actual or threatened, that could reasonably be expected to restrain, prevent or impose materially burdensome conditions on the Transactions.

ARTICLE V

Affirmative Covenants

The Borrower covenants and agrees with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document shall have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and will cause each of the Subsidiaries to:



SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.05 and except, with respect to any Subsidiary, where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of the business of the Borrower and its Subsidiaries taken as a whole; maintain and operate such business in substantially the manner in which it is presently conducted and operated; comply in all material respects with all applicable laws, rules, regulations (including (i) all Environmental Laws and (ii) any zoning, building, ordinance, code or approval or any building permits or any restrictions of record or agreements affecting the Mortgaged Properties) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted, except where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times, except where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

SECTION 5.02. Insurance. (a) Keep its insurable properties adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and maintain such other insurance as may be required by law.

(b) Cause all such policies covering any Collateral to be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement, in form and substance satisfactory to the Administrative Agent and the Collateral Agent, which endorsement shall provide that, from and after the Closing Date, if the insurance carrier shall have received written notice from the Administrative Agent or the Collateral Agent of the occurrence of an Event of Default, the insurance carrier shall pay all proceeds otherwise payable to the Borrower or the Loan Parties under such policies directly to the Collateral Agent; cause all such policies to provide that neither the Borrower, the Administrative Agent, the Collateral Agent nor any other party shall be a coinsurer thereunder and to contain a "Replacement Cost Endorsement", without any deduction for depreciation, and such other provisions as the Administrative Agent or the Collateral Agent may reasonably require from time to time to protect their interests; deliver original or certified copies of all such policies to the Collateral Agent;





cause each such policy to provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium upon not less than 10 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent (giving the Administrative Agent and the Collateral Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason upon not less than 30 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent; deliver to the Administrative Agent and the Collateral Agent, prior to the cancelation, modification or nonrenewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent and the Collateral Agent) together with evidence satisfactory to the Administrative Agent and the Collateral Agent of payment of the premium therefor.

(c) If at any time the area in which the Premises (as defined in the Mortgages) are located is designated (i) a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), obtain flood insurance in such total amount as the Administrative Agent, the Collateral Agent or the Required Lenders may from time to time require, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as it may be amended from time to time, or (ii) a "Zone 1" area, obtain earthquake insurance in such total amount as the Administrative Agent, the Collateral Agent or the Required Lenders may from time to time require.

(d) With respect to any Mortgaged Property, carry and maintain comprehensive general liability insurance including the "broad form CGL endorsement" and coverage on an occurrence basis against claims made for personal injury (including bodily injury, death and property damage) and umbrella liability insurance against any and all claims, in no event for a combined single limit of less than $50,000,000, naming the Collateral Agent as an additional insured, on forms satisfactory to the Collateral Agent.

(e) Notify the Administrative Agent and the Collateral Agent immediately whenever any separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 5.02 is taken out by the Borrower; and promptly deliver to the Administrative Agent and the Collateral Agent a duplicate original copy of such policy or policies.

SECTION 5.03. Obligations and Taxes. Pay its Indebtedness promptly and in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested

obligation, tax, assessment or



charge and enforcement of a Lien and, in the case of a Mortgaged Property, there is no risk of forfeiture of such property.

SECTION 5.04. Financial Statements, Reports, etc. In the case of the Borrower, furnish to the Administrative Agent and each Lender:

(a) within 100 days after the end of each fiscal year, its consolidated balance sheet and related statements of income, stockholders' equity and cash flows showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by Ernst & Young LLP or other independent public accountants of recognized national standing and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP;

(b) within 50 days after the end of each of the first three fiscal quarters of each fiscal year, its consolidated balance sheet and related statements of income, stockholders' equity and cash flows showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, compared with the consolidated budget for such fiscal quarter as well as the results of its operations and the operations of its Subsidiaries in the corresponding quarter from the prior fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP, subject to normal year-end audit adjustments;

(c) unless and until the Borrower shall have obtained, and during any period the Borrower does not maintain, Investment Grade Ratings, within 30 days after the end of each of the first two fiscal months of each fiscal quarter, its consolidated balance sheet and related statement of income showing the financial condition of the Borrower and its consolidated Subsidiaries during such fiscal month and the then elapsed portion of the fiscal year, in such form as the Borrower shall generally prepare for its internal purposes;

(d) concurrently with any delivery of financial statements under paragraph (a), (b) or (c) above, a certificate of the accounting firm (in the case of paragraph (a)) or Financial Officer (in the case of paragraph (b) or (c)) opining on or certifying such statements (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or



proposed to be taken with respect thereto and, in the case of a certificate delivered with the financial statements required by paragraph (a) above, setting forth the Borrower's calculation of Excess Cash Flow;

(e) at least 10 days prior to the commencement of each fiscal year of the Borrower, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of and for each quarter of such fiscal year and as of the end of and for such fiscal year and describing the assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget;

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed to its share-holders, as the case may be;

(g) promptly after the receipt thereof by the Borrower or any of its Subsidiaries, a copy of any final "management letter" received by any such person from its certified public accountants and the management's response thereto; and

(h) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.05. Litigation and Other Notices. Furnish to the Administrative Agent, each Issuing Bank and each Lender prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

(b) the filing or commencement of, or any threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and the Subsidiaries in an aggregate amount exceeding $5,000,000;



(d) any notice from S&P or Moody's indicating the possibility of an adverse change in the credit ratings applicable to the Borrower or any of its Indebtedness assigned by S&P or Moody's;

(e) any modification of the Consent Decree that imposes additional obligations on the Borrower or any Subsidiary or otherwise adversely affects the Borrower or any Subsidiary; and

(f) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 5.06. Information Regarding Collateral. (a) Furnish to the Administrative Agent prompt written notice of any change (i) in any Loan Party's corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Loan Party's chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in any Loan Party's identity or corporate structure or (iv) in any Loan Party's Federal Taxpayer

Identification Number. The Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. The Borrower also agrees promptly to notify the Administrative Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each year, at the time of delivery of the annual financial statements with respect to the preceding fiscal year pursuant to Section 5.04(a), deliver to the Administrative Agent a certificate of a Financial Officer setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Closing Date or the date of the most recent certificate delivered pursuant to this Section 5.06.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law are made of all dealings and transactions in relation to its business and activities. Each Loan Party will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender to visit and inspect the financial records and the properties of the Borrower or any Subsidiary at reasonable times and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent or any Lender to discuss the affairs, finances and condition of the Borrower or any Subsidiary with the officers thereof and independent accountants therefor; provided that any such visit or inspection does not interfere with the normal operation of such business conducted at the properties.



SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. Further Assurances. (a) Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or that the Required Lenders or the Agents may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and first priority of the security interests created or intended to be created by the Security Documents. The Borrower will cause any subsequently acquired or organized Domestic Subsidiary (other than Finsub) to execute a Guarantee Agreement, Indemnity Subrogation and Contribution Agreement and each applicable Security Document in favor of the Collateral Agent. In addition, from time to time, the Borrower will, at its cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, perfected security interests with respect to such of its assets and properties as the Administrative Agent or the Required Lenders shall designate (it being understood that it is the intent of the parties that the Obligations shall be secured by, among other things, substantially all the assets of the Borrower and its Subsidiaries (including real and other properties acquired subsequent to the Closing Date but excluding Program Receivables sold to Finsub pursuant to the Receivables Program Documentation)). Such security interests and Liens will be created under the Security Documents and other security agreements, mortgages, deeds of trust and other instruments and documents in form and substance satisfactory to the Collateral Agent, and the Borrower shall deliver or cause to be delivered to the Lenders all such instruments and documents (including legal opinions, title insurance policies and lien searches) as the Collateral Agent shall reasonably request to evidence compliance with this Section. The Borrower agrees to provide such evidence as the Collateral Agent shall reasonably request as to the perfection and priority status of each such security interest and Lien.

(b) In the event that any one or more of the Designated Properties continues to be owned by the Borrower or any Domestic Subsidiary and is not

subject to a definitive contract for its sale on the day that is 12 months following the Closing Date, or, in the event the Borrower determines not to sell or otherwise dispose of any Designated Property, within 90 days of such decision, if earlier, execute any and all documents, financing statements, agreements and instruments, and take all action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or that the Required Lenders or the Agents may reasonably request, in order to grant, preserve, protect and perfect a valid and first priority security interest in each such Designated Property in favor of the Collateral Agent for the ratable benefit of the Secured Parties.

(c) Within 60 days after the Closing Date, the Borrower shall deliver or cause to be delivered to the Collateral Agent such share certificates, corporate records, instruments and other documents as shall be necessary to perfect under the laws of the



relevant jurisdictions the pledge of capital stock or other equity interests of the Foreign Subsidiaries and other foreign companies listed on Schedule II to the Pledge Agreement.

SECTION 5.10. Interest Rate Protection. The Borrower shall maintain the lesser of (a) $375,000,000 in principal amount and (b) 50% of its long-term Indebtedness as Indebtedness bearing a fixed rate of interest, whether pursuant to Hedging Agreements (which shall be acceptable to the Agents) or otherwise.

## ARTICLE VI

## Negative Covenants

The Borrower covenants and agrees with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrower will not, and will not cause or permit any of the Subsidiaries to:

SECTION 6.01. Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness for borrowed money existing on the date hereof and set forth in Schedules 6.01(a), (d), (e), (f) and (g), and any extensions, renewals or replacements of such Indebtedness to the extent the principal amount of such Indebtedness is not increased, the weighted average life to maturity of such Indebtedness is not decreased, such Indebtedness, if subordinated to the Obligations, remains so subordinated on terms not less favorable to the Lenders, and no Loan Party (unless the original obligor in respect of such Indebtedness) becomes an obligor with respect thereto;

(b) Indebtedness created hereunder and under the other Loan Documents;

(c) Intercompany Indebtedness of the Borrower and the Subsidiaries to the extent permitted by Section 6.04(c);

(d) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 90 days after such acquisition or within 90 days after the completion of such construction or improvement and (ii)

the aggregate principal amount of Indebtedness permitted by this Section 6.01(d), when combined with the aggregate principal amount of all Capital Lease Obligations incurred pursuant to Section 6.01(e) and outstanding Indebtedness listed on Schedules 6.01(d) and 6.01(e), shall not exceed $25,000,000 at any time outstanding;

(e) Capital Lease Obligations in an aggregate principal amount, when combined with the aggregate principal amount of all Indebtedness incurred pursuant to Section 6.01(d) and outstanding Indebtedness listed on Schedules 6.01(d) and 6.01(e), not in excess of $25,000,000 at any time outstanding;

(f) Indebtedness under industrial revenue bonds in an aggregate principal amount, when combined with the outstanding principal amounts of industrial revenue bonds listed on Schedule 6.01(f), not to exceed $20,000,000 at any time outstanding;

(g) Indebtedness incurred by Foreign Subsidiaries in an aggregate principal amount, when combined with the outstanding principal amount of all Indebtedness listed on Schedule 6.01(g), not to exceed $25,000,000 at any time outstanding;

(h) in respect of the Borrower, unsecured Guarantees of Indebtedness of Subsidiaries permitted to be incurred pursuant to this Agreement, provided that if such Indebtedness is subordinated to the Obligations, the Guarantee thereof by the Borrower shall be subordinated on terms no less favorable to the Lenders;

(i) Indebtedness of (x) the Borrower under the Dollar Subordinated Notes in an aggregate principal amount not to exceed $290,000,000, and the senior subordinated Guarantees thereof by the Guarantors, and (y) FFBV under the Euro Subordinated Notes in an aggregate principal amount not to exceed euro 100,000,000, and the senior subordinated Guarantees thereof by the Guarantors (other than FFBV) and the Borrower, in each case less the amount of any prepayments or repurchases thereof after the Closing Date;

(j) Indebtedness of Finsub incurred pursuant to the Receivables Program Documentation in an amount not exceeding $200,000,000 in the aggregate at any time outstanding;

(k) in respect of the Loan Parties and after March 31, 2001, Guarantees of loans, in an aggregate amount outstanding at any time not to exceed $30,000,000, made by third parties to employees who are participants in the Borrower's stock purchase program, if implemented, to enable such employees to purchase common stock of the Borrower;

(l) Indebtedness or other contingent obligations (including obligations as an account party under any letter of credit), solely in respect of surety and performance bonds, bank guarantees and similar obligations in respect of



contractual obligations of the Borrower or its Subsidiaries, provided that such obligations are (i) incurred in the ordinary course of business of the Borrower and the Subsidiaries and (ii) except as expressly permitted under Section 6.02(l), unsecured;

(m) Indebtedness in respect of the ABN Standby Credit in an aggregate amount outstanding at any time not to exceed $10,000,000;

(n) Indebtedness in respect of the Fifth Third Letters of

Credit, but not any renewals, extensions or replacements thereof;

(o) to the extent constituting Indebtedness, the unsecured corporate Guarantee of the Borrower set forth in Section 4.7 of the Purchase Agreement; and

(p) other unsecured Indebtedness of the Borrower or the Subsidiaries (other than Foreign Subsidiaries) in an aggregate principal amount not exceeding $25,000,000 at any time outstanding.

SECTION 6.02. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower and its Subsidiaries existing on the date hereof and set forth in Schedule 6.02; provided that to the extent such Liens secure obligations, they shall secure only those obligations which they secure on the date hereof;

(b) any Lien created under the Loan Documents, including Liens created under the Security Documents to secure the Pari Passu Exposure, Hedging Agreements entered into with Lenders or Affiliates of Lenders, and the Guarantees described in Section 6.01(k);

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition, (ii) such Lien does not apply to any other property or assets of the Borrower or any Subsidiary and (iii) such Lien does not (A) materially interfere with the use, occupancy and operation of any Mortgaged Property, (B) materially reduce the fair market value of such Mortgaged Property but for such Lien or (C) result in any material increase in the cost of operating, occupying or owning or leasing such Mortgaged Property;

(d) Liens for taxes not yet due or which are being contested in compliance with Section 5.03;



(e) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or which are being contested in compliance with Section 5.03;

(f) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(g) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(h) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(i) purchase money security interests in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements, constructed) by the Borrower or any Subsidiary; provided that (i) such security interests secure Indebtedness permitted by Section 6.01, (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 90 days after such

acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed 90% of the lesser of the cost or the fair market value of such real property, improvements or equipment at the time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of the Borrower or any Subsidiary;

(j) Liens on the property of Finsub incurred pursuant to the Receivables Program Documentation;

(k) Liens arising out of judgments or awards in respect of which the Borrower or any of the Subsidiaries shall in good faith be prosecuting an appeal or proceedings for review in respect of which there shall be secured a subsisting stay of execution pending such appeal or proceedings; provided that the aggregate amount of all such judgments or awards (and any cash and the fair market value of any property subject to such Liens) does not exceed $10,000,000 at any time outstanding; and

(l) Liens on assets of Foreign Subsidiaries; provided that (i) such Liens do not extend to, or encumber, assets which constitute Collateral or the capital stock of any of the Subsidiaries, and (ii) such Liens extending to the assets of any Foreign Subsidiary secure only Indebtedness (x) incurred by such Foreign



Subsidiary pursuant to Section 6.01(g) or (y) of up to $5,000,000 in the aggregate incurred by Foreign Subsidiaries pursuant to Section 6.01(l).

SECTION 6.03. Sale and Lease-Back Transactions. Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred unless (a) the sale of such property is permitted by Section 6.05 and (b) any Capital Lease Obligations or Liens arising in connection therewith are permitted by Sections 6.01 and 6.02, respectively.

SECTION 6.04. Investments, Loans and Advances. Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, any other person, except:

(a) (i) investments by the Borrower and the Subsidiaries existing on the date hereof in the capital stock or other equity interests of the Subsidiaries, (ii) investments in an aggregate amount not to exceed $30,000,000, the proceeds of which are used, directly or indirectly, to acquire from any third-party joint venture participant all such participant's interest in a joint venture, with the result that the joint venture becomes a wholly owned subsidiary, and (iii) additional investments by the Borrower and the Subsidiaries in the capital stock or other equity interests of the Subsidiaries; provided that (A) any such capital stock or other equity interests held by a Loan Party shall be pledged pursuant to the Pledge Agreement (subject to the limitations applicable to voting stock of a Foreign Subsidiary referred to in Section 4.02(f)) and (B) the aggregate amount of equity investments made after the Closing Date pursuant to this clause (iii) by Loan Parties in Subsidiaries that are not Loan Parties shall not exceed $25,000,000 at any time outstanding;

(b) Permitted Investments;

(c) (i) intercompany loans and advances existing on the Closing Date (after giving effect to the Acquisition and the financing therefor) and set forth on Schedule 6.04 and renewals, refinancings, substitutions and replacements of such intercompany loans and advances to the extent the aggregate principal amount of all such loans and advances is not increased, (ii) other loans or advances made by the

Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary; provided that (x) any such loans and advances pursuant to this paragraph (c) made by a Loan Party to a Subsidiary that is not a Loan Party shall be evidenced by a senior promissory note (in form and substance satisfactory to the Agents) and (y) the amount of such loans and advances made pursuant to clause (ii) of this paragraph (c) by Loan Parties to Subsidiaries that are not Loan Parties shall not exceed (A) $40,000,000 at any time outstanding prior to the six-month anniversary of the Closing Date and





(B) $25,000,000 at any time outstanding thereafter; (iii) a loan of approximately $3,000,000 (or the equivalent thereof in another currency) to be made to a subsidiary of Ingersoll-Rand Company in connection with the Acquisition and required to be repaid within five Business Days following the Closing Date and (iv) the Borrower or a wholly owned subsidiary may own the Defeased IRBs;

(d) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(e) the Borrower and the Subsidiaries may make loans and advances in the ordinary course of business to their respective employees so long as the aggregate principal amount thereof at any time outstanding (determined without regard to any write-downs or write-offs of such loans and advances) shall not exceed $5,000,000;

(f) the Borrower may enter into Hedging Agreements that (i) are required by Section 5.10 or (ii) are not speculative in nature, are entered into in the ordinary course of business and are related to interest rate hedging for floating interest rate exposure or hedging of bookings, sales, income and dividends derived from the foreign operations of the Borrower or any Subsidiary or otherwise related to purchases from foreign suppliers;

(g) the Borrower or any Subsidiary may acquire all or substantially all the assets of a person or line of business of such person, or not less than 100% of the capital stock or other equity interests of a person (referred to herein as the "Acquired Entity"); provided that (i) such acquisition was not preceded by an unsolicited tender offer for such capital stock or other equity interest by, or proxy contest initiated by, the Borrower or any Subsidiary; (ii) the Acquired Entity shall be a going concern, shall be in a similar line of business as that of the Borrower and the Subsidiaries as conducted during the current and most recent calendar year and shall have had positive Consolidated EBITDA over the twelve month period preceding the Acquisition; and (iii) at the time of such transaction (A) both before and after giving effect thereto, no Event of Default or Default shall have occurred and be continuing; (B) the Borrower would be in compliance with the covenants set forth in Sections 6.11 and 6.12 and the Leverage Ratio shall be at least 25 basis points below the maximum Leverage Ratio permitted at the time pursuant to Section 6.13, in each case as of the most recently completed period of four consecutive fiscal quarters ending prior to such transaction for which the financial statements and certificates required by Section 5.04(a) or 5.04(b) have been delivered or for which comparable financial statements have been filed with the Securities and Exchange Commission, after giving pro forma effect to such transaction and to any other event occurring after such period as to which pro forma recalculation is appropriate (including any other transaction described in this Section 6.04(g) occurring after such period) as if such transaction had occurred as of the first day of such period; (C) after giving effect to such acquisition, there must be at least $60,000,000 of unused

and available Revolving Credit Commitments; and (D) the aggregate of the consideration paid in connection with all such acquisitions (including any Indebtedness of the Acquired Entity that is assumed by the Borrower or any Subsidiary following such acquisition) shall not exceed (x) in the event that the Borrower's Leverage Ratio calculated as provided under clause (iii)(B) above is greater than 2.5 to 1.0, $50,000,000 for all such acquisitions, and (y) in the event that the Borrower's Leverage Ratio calculated as provided under clause (iii)(B) above is equal to or less than 2.5 to 1.0, $100,000,000 in any fiscal year of the Borrower, which amount may be increased in any fiscal year (to an amount not to exceed $150,000,000) by the amount of consideration for any such acquisition in such fiscal year consisting solely of common stock of the Borrower (any acquisition of an Acquired Entity meeting all the criteria of this Section 6.04(g) being referred to herein as a "Permitted Acquisition"). All pro forma calculations required to be made pursuant to this Section 6.04(g) shall (i) include only those adjustments that would be permitted or required by Regulation S-X under the Securities Act of 1933, as amended, are reviewed by the Borrower's independent certified public accountants and are based on reasonably detailed written assumptions reasonably acceptable to the Agents and (ii) be certified to by a Financial Officer as having been prepared in good faith based upon reasonable assumptions; and

(h) in addition to investments permitted by clauses (a) through (g) above, additional investments, loans and advances by the Borrower and the Subsidiaries (other than equity investments in Foreign Subsidiaries) so long as the aggregate amount invested, loaned or advanced pursuant to this paragraph (h) (determined without regard to any write-downs or write-offs of such investments, loans and advances) does not exceed $10,000,000 in the aggregate.

SECTION 6.05. Mergers, Consolidations, Sales of Assets and Acquisitions. (a) Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all the assets of the Borrower (whether now owned or hereafter acquired) or any capital stock of any Subsidiary, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other person, except that (i) the Borrower and any Subsidiary may purchase and sell inventory in the ordinary course of business, (ii) if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing (x) any wholly owned subsidiary of the Borrower may merge into the Borrower in a transaction in which the Borrower is the surviving corporation and (y) any wholly owned subsidiary of the Borrower may merge into or consolidate with any other wholly owned subsidiary of the Borrower in a transaction in which the surviving entity is a wholly owned subsidiary of the Borrower and no person other than the Borrower or a wholly owned subsidiary of the Borrower receives any consideration, (iii) the Acquisition may be consummated, (iv) the Borrower and the Subsidiaries may make Permitted Acquisitions, (v) any Inactive Subsidiary may be liquidated, (vi) any Loan Party (other than the Borrower) may sell, transfer, lease or otherwise dispose of (in one transaction or a series





of transactions) all or substantially all of the assets of such Loan Party to another Loan Party and (vii) the Borrower or any Subsidiary may sell Program Receivables to Finsub, and Finsub may sell Program Receivables pursuant to the Receivables Program Documentation.

(b) Engage in any Asset Sale otherwise permitted under paragraph (a) above unless (i) such Asset Sale is for consideration at least 75% of which is cash, (ii) except with respect to Asset Sales of Designated Properties or Consent Decree Assets, such consideration is at least equal to the fair market value (as determined in good faith by the board of directors of the Borrower) of the assets being sold, transferred, leased or disposed of and (iii) except with

respect to Asset Sales of Designated Properties or Consent Decree Assets, the fair market value of all assets sold, transferred, leased or disposed of pursuant to this paragraph (b) shall not exceed (i) $50,000,000 in any fiscal year or (ii) $150,000,000 in the aggregate.

(c) Engage in any Asset Swap otherwise permitted by Section 6.05(a) unless all of the following conditions are met: (i) such exchange complies with the definition of Asset Swap, (ii) if the fair market value of the assets transferred exceeds $25,000,000, the board of directors of the Borrower approves such exchange and the Borrower secures an appraisal given by an unaffiliated third party in form and substance reasonably satisfactory to the Administrative Agent, (iii) the fair market value of all assets of the Borrower and the Subsidiaries transferred pursuant to Asset Swaps shall not exceed $100,000,000 in the aggregate and (iv) the fair market value of any property or assets received is at least equal to the fair market value of the property or assets so transferred.

SECTION 6.06. Dividends and Distributions; Restrictive Agreements. (a) Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any shares of its capital stock or directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Subsidiary to purchase or acquire) any shares of any class of its capital stock or set aside any amount for any such purpose (a "Restricted Payment"); provided, however, that (i) any Subsidiary may declare and pay dividends or make other distributions ratably to its shareholders, (ii) so long as no Event of Default or Default shall have occurred and be continuing or would result therefrom, the Borrower may repurchase shares of its capital stock owned by employees of the Borrower or the Subsidiaries or make payments to employees of the Borrower or the Subsidiaries in connection with the exercise of stock options, stock appreciation rights or similar equity incentives or equity based incentives upon termination of employment or in connection with the death or disability of such employees, in an aggregate amount not to exceed $5,000,000 in any fiscal year, (iii) so long as no Event of Default or Default shall have occurred and be continuing or would result therefrom, the Borrower may repurchase shares of its capital stock for contribution to employee benefit plans maintained by the Borrower and the Subsidiaries, in an aggregate amount not to exceed $5,000,000 in any fiscal year and (iv) so long as the Borrower has obtained and maintains Investment Grade Ratings, and so long as no Event of Default or Default shall have occurred and be continuing or would result therefrom, the Borrower may make



Restricted Payments in an amount not to exceed in the aggregate 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter immediately following the fiscal quarter during which the Investment Grade Ratings are obtained to the end of the most recent fiscal quarter for which financial statements have been delivered to the Lenders pursuant to Section 5.04(a) or (b) prior to the date of such Restricted Payment.

(b) Enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (i) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets to secure the Obligations, or (ii) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (A) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document or Subordinated Note Document, (B) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (C) the foregoing shall not apply to restrictions and conditions imposed on Finsub under the Receivables Program Documentation, (D) the foregoing shall not apply to restrictions and conditions imposed on any Foreign Subsidiary by the terms of any Indebtedness of such Foreign Subsidiary permitted to be incurred hereunder, (E) clause (i) of the foregoing shall not apply to restrictions or

conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (F) clause (i) of the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 6.07. Transactions with Affiliates. Except for transactions by or among Loan Parties, sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that (a) the Borrower or any Subsidiary may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) reasonable and customary fees may be paid to members of the Board of Directors, officers, employees and consultants of the Borrower and the Subsidiaries for services rendered to the Borrower or any such Subsidiary in the ordinary course of business, together with customary indemnities in connection therewith and in accordance with applicable law, (c) dividends and other payments permitted to be made under Section 6.06 will be permitted, (d) the Borrower, Finsub and the other Subsidiaries may consummate the transactions contemplated by the Receivables Program Documentation, (e) the Borrower and the Subsidiaries may enter into intercompany transactions permitted by Sections 6.04 and (f) the Borrower and the Subsidiaries may consummate the Transactions.

SECTION 6.08. Business of Borrower and Subsidiaries. Engage at any time in any business or business activity other than the business currently conducted by it and



business activities reasonably incidental thereto, which, in the case of Finsub, shall be limited solely to performing its obligations under the Receivables Program Documentation and, in the case of FFBV, shall be limited solely to performing its obligations under the Subordinated Note Documents and the Loan Documents.

SECTION 6.09. Other Indebtedness and Agreements. (a) Permit any waiver, supplement, modification, amendment, termination or release of any indenture, instrument or agreement pursuant to which any Material Indebtedness of the Borrower or any of the Subsidiaries is outstanding if the effect of such waiver, supplement, modification, amendment, termination or release would materially increase the obligations of the obligor or confer additional material rights on the holder of such Indebtedness in a manner adverse to the Borrower, any of the Subsidiaries or the Lenders.

(b)(i) Make any distribution, whether in cash, property, securities or a combination thereof, other than regular scheduled payments of interest as and when due (to the extent not prohibited by applicable subordination provisions), in respect of, or pay, or offer or commit to pay, or directly or indirectly redeem, repurchase, retire or otherwise acquire for consideration, or set apart any sum for the aforesaid purposes, any subordinated Indebtedness (including the Subordinated Notes), or (ii) pay in cash any amount in respect of any Indebtedness or preferred equity interests that may at the obligor's option be paid in kind or in other securities.

SECTION 6.10. Capital Expenditures. Until such time as the Borrower obtains, and during any period in which the Borrower does not maintain, Investment Grade Ratings, permit the aggregate amount of Capital Expenditures made by the Borrower and the Subsidiaries (a) from the Closing Date through and including December 31, 2000, to exceed $40,000,000 in the aggregate and (b) in any fiscal year thereafter, to exceed $50,000,000 in the aggregate.

The amount of permitted Capital Expenditures set forth above in respect of any fiscal year commencing with the fiscal year ending on December 31, 2001, shall be increased (but not reduced) by (i) the amount of unused permitted Capital Expenditures for the immediately preceding fiscal year less (ii) an amount equal to unused Capital Expenditures carried forward to such preceding fiscal year.

SECTION 6.11. Interest Coverage Ratio. Permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters, in each case taken as one accounting period, ending during any period set forth below to be less than the ratio set forth opposite such period below:

| Period | Ratio |
|---|---|
| From and including September 30, 2000 through and including September 29, 2001 | 1.85 to 1.00 |
| From and including September 30, 2001 through and including September 29, 2002 | 2.00 to 1.00 |
| From and including September 30, 2002 through and including September 29, 2003 | 2.25 to 1.00 |
| From and including September 30, 2003 through and including September 29, 2004 | 3.00 to 1.00 |
| Thereafter | 4.00 to 1.00 |

SECTION 6.12. Fixed Charge Coverage Ratio. Permit the Fixed Charge Coverage Ratio for any period of four consecutive fiscal quarters, in each case taken as one accounting period, ending during any period set forth below to be the less than the ratio set forth opposite such period below:

| Period | Ratio |
|---|---|
| From and including September 30, 2000 through and including September 29, 2003 | 1.10 to 1.00 |
| From and including September 30, 2003 through and including September 29, 2004 | 1.15 to 1.00 |
| Thereafter | 1.20 to 1.00 |



SECTION 6.13. Maximum Leverage Ratio. Permit the Leverage Ratio at any time during a period set forth below to be greater than the ratio set forth opposite such period below:

| Period | Ratio |
|---|---|
| From and including September 30, 2000 through and including June 29, 2001 | 5.00 to 1.00 |
| From and including June 30, 2001 through and including September 29, 2001 | 4.75 to 1.00 |

| | |
|---|---|
| From and including September 30, 2001 through and including March 30, 2002 | 4.50 to 1.00 |
| From and including March 31, 2002 through and including June 29, 2002 | 4.25 to 1.00 |
| From and including June 30, 2002 through and including December 30, 2002 | 3.75 to 1.00 |
| From and including December 31, 2002 through and including September 29, 2003 | 3.50 to 1.00 |
| From and including September 30, 2003 through and including September 29, 2004 | 3.00 to 1.00 |
| Thereafter | 2.50 to 1.00 |

SECTION 6.14. Designated Senior Indebtedness. Designate any Indebtedness as "Designated Senior Indebtedness" for purposes of either the Dollar Subordinated Note Indenture or the Euro Subordinated Note Indenture.

SECTION 6.15. Fiscal Year. With respect to the Borrower, change its fiscal year-end to a date other than December 31; provided that the Borrower may use a 52/53 week fiscal year ending around December 31.



ARTICLE VII

Events of Default

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment in the applicable currency of any principal of any Loan or the reimbursement with respect to any L/C Disbursement (after giving effect to the reimbursement of the applicable Issuing Bank out of the proceeds of a Revolving Loan or Swingline Loan pursuant to Section 2.02(f) or Section 2.22(c), respectively) when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment in the applicable currency of any interest on any Loan or any Fee or L/C Disbursement or any other Obligation (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days;

(d) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 5.01(a), 5.05 or 5.08 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 15 days after notice thereof from the Administrative Agent or any Lender to the Borrower;

(f) the Borrower or any Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Indebtedness

when and as the same shall become due and payable, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf to cause, such Indebtedness to become due prior to its stated maturity;

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(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Subsidiary (other than any Inactive Subsidiary), or of a substantial part of the property or assets of the Borrower or a Subsidiary (other than any Inactive Subsidiary), under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary (other than any Inactive Subsidiary) or for a substantial part of the property or assets of the Borrower or a Subsidiary (other than any Inactive Subsidiary) or (iii) the winding-up or liquidation of the Borrower or any Subsidiary (other than any Inactive Subsidiary); and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Borrower or any Subsidiary (other than any Inactive Subsidiary) shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary (other than any Inactive Subsidiary) or for a substantial part of the property or assets of the Borrower or any Subsidiary (other than any Inactive Subsidiary), (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of $10,000,000 shall be rendered against the Borrower, any Subsidiary (other than any Inactive Subsidiary) or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Subsidiary (other than any Inactive Subsidiary) to enforce any such judgment;

(j) an ERISA Event shall have occurred that, in the reasonable opinion of the Required Lenders, when taken together with all other such ERISA Events, could reasonably be expected to result in a Material Adverse Effect;

(k) any Guarantee under the Guarantee Agreement for any reason shall cease to be in full force and effect (other than in accordance with its terms), or any Guarantor shall deny in writing that it has any further liability under its Guarantee Agreement (other than as a result of the discharge of such Guarantor in accordance with the terms of the Loan Documents);

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(l) any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by the Borrower or any other Loan Party not to be, a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Security Document) security

interest in the securities, assets or properties covered thereby, except to the extent that any such loss of perfection or priority results from the failure of the Collateral Agent to maintain possession of certificates representing securities pledged under the Pledge Agreement and except to the extent that such loss is covered by a lender's title insurance policy and the related insurer promptly after such loss shall have acknowledged in writing that such loss is covered by such title insurance policy;

(m) any of the Obligations shall cease to constitute "Senior Indebtedness" under and as defined in either the Dollar Subordinated Note Indenture or the Euro Subordinated Note Indenture; or

(n) there shall have occurred a Change in Control;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.



ARTICLE VIII

The Agents

SECTION 8.01. Appointment. (a) Each Lender hereby irrevocably (subject to Section 8.03) appoints Bank of America, N.A. to act as Administrative Agent and Collateral Agent on behalf of the Lenders and the Issuing Banks and Credit Suisse First Boston to act as Syndication Agent. Each of the Lenders and each assignee of any such Lender hereby irrevocably authorizes the Agents to take such actions on behalf of such Lender or assignee or Issuing Bank and to exercise such powers as are specifically delegated to the Agents by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Banks, without hereby limiting any implied authority, (i) to receive on behalf of the Lenders and the Issuing Banks all payments of principal of and interest on the Loans, all payments in respect of L/C Disbursements and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender or Issuing Bank its proper share of each payment so received; (ii) to give notice on behalf of each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (iii) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrower or any other Loan Party pursuant to this Agreement or the other Loan Documents as received by the Administrative Agent. Without limiting the generality of the foregoing, the Agents are hereby expressly authorized to execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Security Documents. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, no Agent shall have any duties or responsibilities except those expressly set forth herein, nor

shall any Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against any Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to any Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Banks shall act on behalf of the Lenders with respect to any Letters of Credit issued by them and the documents associated therewith until such time and except for so long as the Administrative Agent may agree at the request of the Required Lenders to act for such Issuing Bank with respect thereto; provided, however, that the Issuing Banks shall have all of the benefits and immunities (i) provided to the Agents in this Article VIII with respect to any acts taken or omissions suffered by an Issuing Bank in connection with Letters of Credit issued by it or proposed to be issued



by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term "Agent" as used in this Article VIII included Issuing Banks with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to Issuing Banks.

SECTION 8.02. Liability of Agents. Neither the Agents nor any of their respective directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower or any other Loan Party of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agents shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other Loan Documents, instruments or agreements. The Agents shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. Each Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agents nor any of their respective directors, officers, employees or agents shall have any responsibility to the Borrower or any other Loan Party on account of the failure of or delay in performance or breach by any Lender or Issuing Bank of any of its obligations hereunder or to any Lender or Issuing Bank on account of the failure of or delay in performance or breach by any other Lender or Issuing Bank or the Borrower or any other Loan Party of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. Each of the Agents may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

SECTION 8.03. Resignation and Replacement. Subject to the appointment and acceptance of a successor Agent as provided below, any Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor acceptable to the Borrower, such consent not to be unreasonably withheld; provided, however, that the consent of the Borrower shall not be required to any such appointment during the continuance of any Event of Default. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a bank with an office in the United States, having a combined capital and surplus of at least $500,000,000 or an Affiliate of any such bank.

Upon the acceptance of any appointment as Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and



duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations hereunder. After the Agent's resignation hereunder, the provisions of this Article and Section 9.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

SECTION 8.04. Agent in Individual Capacity. With respect to the Loans made by it hereunder, each Agent in its individual capacity and not as Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not an Agent, and the Agents and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not an Agent.

SECTION 8.05. Indemnification of Agents. Each Lender agrees (a) to reimburse the Agents, on demand, in the amount of its pro rata share (based on the aggregate amount of its outstanding Term Loans and its Revolving Credit Commitments hereunder) of any expenses incurred for the benefit of the Lenders by the Agents, including reasonable counsel fees and disbursements, the allocated cost of internal legal services, all disbursements of internal counsel and compensation of agents and employees paid for services rendered on behalf of the Lenders, that shall not have been reimbursed by the Borrower and (b) to indemnify and hold harmless each Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as Agent or any of them in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrower or any other Loan Party, provided that no Lender shall be liable to an Agent or any such other indemnified person for any portion of such liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that is determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Agent or any of its directors, officers, employees or agents. Each Revolving Credit Lender agrees to reimburse each Issuing Bank and its directors, employees and agents, in each case, to the same extent and subject to the same limitations as provided above for the Agents.

SECTION 8.06. No Reliance. Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.



SECTION 8.07. Notice of Default. No Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except, in the case of the Administrative Agent, with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent for the account of the Lenders, unless such Agent shall have received written notice from a Lender or the Borrower referring to this

Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". An Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default or Event of Default as may be directed by the Required Lenders; provided, however, that unless and until the Administrative Agent has received any such direction, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Lenders.

## ARTICLE IX

## Miscellaneous

SECTION 9.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at 222 W. Las Colinas Boulevard, Suite 1500, Irving, TX 75039, Attention of Ms. Renee Hornbaker (Telecopy No. (972) 443-6912);

(b) if to the Administrative Agent, to Bank of America, N.A., Agency Management-Los Angeles, Mail Code CA9-706-11-03, 555 South Flower St., Los Angeles, CA 90071, Attention of Gina Meador (Telecopy No. (213) 228-2299), with a copy to Bank of America, N.A., CPM-General Corporate-West, Mail Code CA9-706-11-07, 555 South Flower St., Los Angeles, CA 90071, Attention of Therese Fontaine (Telecopy No. (213) 623-1959);

(c) if to the Syndication Agent, to Credit Suisse First Boston, Eleven Madison Avenue, New York, NY 10010, Attention of Mr. James Moran (Telecopy No. (212) 325-8615); and

(d) if to a Lender, to it at its address (or telecopy number) set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case



delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and the Issuing Banks and shall survive the making by the Lenders of the Loans and the issuance of Letters of Credit by the Issuing Banks, regardless of any investigation made by the Lenders or the Issuing Banks or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated. The provisions of Sections 2.14, 2.16, 2.20 and 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or any Issuing Bank.

SECTION 9.03. Binding Effect. This Agreement shall become effective

when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received counterparts hereof (including as contemplated by Section 9.13 herein) which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party, which shall include, in the case of a Lender, any entity resulting from a merger or consolidation; and all covenants, promises and agreements by or on behalf of the Borrower, the Administrative Agent, the Issuing Banks or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to a Lender or an Affiliate or Related Fund of a Lender, (x) the Borrower and the Administrative Agent (and, in the case of any assignment of a Revolving Credit Commitment, the Issuing Banks and the Swingline Lender) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld or delayed); provided, however, that the consent of the Borrower shall not be required to any such assignment during the continuance of any Event of Default, and



(y) the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $2,500,000 (or, if less, the entire remaining amount of such Lender's Commitment), (ii) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500; provided, however, that such processing and recordation fee shall not apply to any Assignment and Acceptances delivered to the Administrative Agent on or before the second Business Day following the Closing Date and (iii) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.16, 2.20 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Term Loan Commitment and Revolving Credit Commitment, and the outstanding balances of its Term Loans and Revolving Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other

instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 3.05(a) or delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, the Collateral Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not



taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Collateral Agent, respectively, by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in Los Angeles a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive and the Borrower, the Administrative Agent, the Issuing Banks, the Collateral Agent and the Lenders may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Banks, the Collateral Agent and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower, the Swingline Lender, the Issuing Banks and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Lenders, the Issuing Banks and the Swingline Lender. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e). Prior to such recordation, all amounts owed with respect to the applicable Commitment or outstanding Loan shall be owed to the Lender listed in the Register as the owner thereof, and any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is listed in the Register as the Lender shall be conclusive and binding on any subsequent holder, assignee or transferee of the corresponding Commitments or Loans.

(f) Each Lender may, without the consent of the Borrower, the Swingline Lender, the Issuing Banks or the Administrative Agent, sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.14, 2.16 and 2.20 to the same extent as if they were Lenders provided that the Borrower shall not be required to reimburse the participating banks or other entities

pursuant to Section 2.14, 2.16 or 2.20 in an amount in excess of the amount that would have been payable thereunder to such Lender had such Lender not sold such participation, and (iv) the Borrower, the Administrative Agent, the Issuing Banks and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to the Loans or L/C Disbursements and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans, increasing or extending the Commitments or releasing any Guarantor or all or any substantial part of the Collateral).

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 9.17.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to secure extensions of credit to such Lender without the consent of either the Borrower or the Administrative Agent; provided that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(i) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other



person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 9.04, any SPC may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Borrower and Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer

or provider of any surety, guarantee or credit or liquidity enhancement to such SPC.

(j) The Borrower shall not assign or delegate any of its rights or duties hereunder without the prior written consent of the Administrative Agent, the Issuing Banks and each Lender, and any attempted assignment without such consent shall be null and void.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all out-of-pocket expenses, the allocated cost of internal legal services and disbursements of internal counsel incurred by the Agents, the Issuing Banks and the Swingline Lender in connection with the syndication of the credit facilities provided for herein and the preparation and administration of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby or thereby contemplated shall be consummated) or incurred by the Agents or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or Letters of Credit issued hereunder, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agents, and O'Melveny and Myers LLP, special counsel for the Administrative Agent, and, in connection with any such enforcement or protection, the fees, charges and disbursements of any other counsel (including the allocated costs of internal counsel) for the Agents or any Lender.

(b) The Borrower agrees to indemnify the Agents, each Lender and each Issuing Bank, each Affiliate of any of the foregoing persons and each of their respective directors, officers, employees, agents, trustees and investment advisors (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements and the allocated cost of internal legal services and disbursements of internal counsel, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or issuance of Letters of Credit, (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, or (iv) any actual or alleged presence or Release of Hazardous Materials on or from any property currently



or formerly owned or operated by the Borrower or any of the Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of the Subsidiaries; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the any Agent, any Lender or any Issuing Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, except to the extent prohibited by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or such other Loan

Document and although such obligations may be unmatured. The rights of each Lender under this Section 9.06 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.07. Applicable Law. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN LETTERS OF CREDIT AND AS EXPRESSLY SET FORTH IN OTHER LOAN DOCUMENTS) SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 9.08. Waivers; Amendment. (a) No failure or delay of the Administrative Agent, the Collateral Agent, any Lender or any Issuing Bank in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power.





The rights and remedies of the Administrative Agent, the Collateral Agent, the Issuing Banks and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or any date for reimbursement of an L/C Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan or L/C Disbursement, without the prior written consent of each Lender affected thereby, (ii) increase or extend the Commitment or decrease or extend the date for payment of the Fees due to any Lender without the prior written consent of such Lender, (iii) amend or modify the pro rata requirements of Section 2.17, the provisions of Section 9.04(j), the provisions of this Section, the definition of the term "Required Lenders" or release any Guarantor or all or any substantial part of the Collateral (except, in each case, any release expressly permitted by the Loan Documents), without the prior written consent of each Lender, (iv) change the provisions of any Loan Document in a manner that by its terms adversely affects the rights in respect of payments due to Lenders holding Loans of one Class differently from the rights of Lenders holding Loans of any other Class without the prior written consent of Lenders holding a majority in interest of the outstanding Loans and unused Commitments of each adversely affected Class, (v) change the rights of the Lenders holding Tranche B Term Loans to reject prepayments under Section 2.13(i) without the prior written consent of the Lenders holding a majority of the aggregate outstanding principal amount of the Tranche B Term Loans or modify the protections afforded to an SPC pursuant to the provisions of Section 9.04(i) without the written consent of such SPC; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Collateral Agent, the Syndication Agent, any Issuing Bank or the Swingline Lender hereunder or under any other Loan Document without the prior written consent of the Administrative Agent, the Collateral Agent, the Syndication Agent, such Issuing Bank or the Swingline Lender.

SECTION 9.09. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan or participation in any L/C Disbursement, together with all fees, charges and other

amounts which are treated as interest on such Loan or participation in such L/C Disbursement under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan or participation in accordance with applicable law, the rate of interest



payable in respect of such Loan or participation hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan or participation but were not payable as a result of the operation of this Section 9.09 shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or participations or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.10. Entire Agreement. This Agreement, the Administrative Agent's Fee Letter, the Fee Letter and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

SECTION 9.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and



shall become effective as provided in Section 9.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into

consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its properties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.16. Judgment Currency. (a) The obligations of the Borrower and the other Loan Parties hereunder and under the other Loan Documents to make payments in dollars or in any Alternative Currency (the "Obligation Currency") shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any currency other than the Obligation Currency, except to the extent that such tender or recovery results in the effective receipt by the Administrative Agent or a Lender or an Issuing Bank of the full amount of the Obligation Currency expressed to be payable to the Administrative Agent or such Lender or Issuing Bank under this Agreement or the other Loan Documents. If, for the purpose of obtaining or



enforcing judgment against the Borrower or any other Loan Party or in any court or in any jurisdiction, it becomes necessary to convert into or from any currency other than the Obligation Currency (such other currency being hereinafter referred to as the "Judgment Currency") an amount due in the Obligation Currency, the conversion shall be made at the Alternative Currency Equivalent or Dollar Equivalent, in the case of any Alternative Currency or dollars, and, in the case of other currencies, the rate of exchange (as quoted by the Administrative Agent or if the Administrative Agent does not quote a rate of exchange on such currency, by a known dealer in such currency designated by the Administrative Agent) determined, in each case, as of the date immediately preceding the day on which the judgment is given (such Business Day being hereinafter referred to as the "Judgment Currency Conversion Date").

(b) If there is a change in the rate of exchange prevailing between the Judgment Currency Conversion Date and the date of actual payment of the amount due, the Borrower covenants and agrees to pay, or cause to be paid, as a separate obligation and notwithstanding any judgment, such additional amounts, if any (but in any event not a lesser amount), as may be necessary to ensure that the amount paid in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of the Obligation Currency which could have been purchased with the amount of Judgment Currency stipulated in the judgment or judicial award at the rate of exchange prevailing on the Judgment Currency Conversion Date.

(c) For purposes of determining the Alternative Currency Equivalent or Dollar Equivalent or rate of exchange for this Section, such amounts shall

include any premium and costs payable in connection with the purchase of the Obligation Currency.

SECTION 9.17. Confidentiality. The Agents, each Issuing Bank and each of the Lenders agrees to keep confidential (and to use its best efforts to cause its respective agents and representatives to keep confidential) the Information (as defined below) and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that any Agent, any Issuing Bank or any Lender shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, agents, affiliates and representatives as need to know such Information, (b) to a potential assignee or participant of such Lender or any direct or indirect contractual counterparty in any swap agreement relating to the Loans or such potential assignee's or participant's or counterparty's advisors who need to know such Information (provided that any such potential assignee or participant or counterparty shall, and shall use commercially reasonable efforts to cause its advisors to, keep confidential all such Information on the terms set forth in this Section 9.17), (c) to the extent requested by any regulatory authority or quasi-regulatory authority such as the National Association of Insurance Commissioners (NAIC), (d) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (e) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder or under the other Loan Documents or (f) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 9.17 or (ii) becomes available to any Agent, any Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "Information" shall mean all



financial statements, certificates, reports, agreements and information (including all analyses, compilations and studies prepared by any Agent, any Issuing Bank or any Lender based on any of the foregoing) that are received from the Borrower and related to the Borrower, any shareholder of the Borrower or any employee, customer or supplier of the Borrower, other than any of the foregoing that were available to any Agent, any Issuing Bank or any Lender on a nonconfidential basis prior to its disclosure thereto by the Borrower, and which are in the case of Information provided after the date hereof, clearly identified at the time of delivery as confidential. The provisions of this Section 9.17 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement.

SECTION 9.18. European Monetary Union. If, as a result of the further implementation of European monetary union, (a) any Alternative Currency (other than the euro) ceases to be lawful currency of the nation issuing the same and is replaced by the euro, then any amount payable hereunder by any party hereto in such currency shall instead be payable in euro and the amount so payable shall be determined by translating the amount payable in such currency to euro at the exchange rate recognized by the European Central Bank for the purpose of replacing such currency by the euro, or (b) any such Alternative Currency and the euro are at the same time recognized by the central bank or comparable authority of the nation issuing such currency as lawful currency of such nation, then (i) any Alternative Currency Letter of Credit issued at such time that would otherwise be denominated in such currency shall be denominated in euro and (ii) any other amount payable by any party hereto in such currency shall be payable in such currency or in euro (in an amount determined as set forth in clause (a)), at the election of the obligor.

SECTION 9.19. Release of Collateral. (a) Notwithstanding any other provision of this Agreement or any Security Document, all Collateral held under any Security Document shall be released from the Liens created thereunder, in each case without representation, warranty or recourse of any nature, on a Business Day specified by the Borrower (the "Release Date"), and the provisions of Section 5.09 of this Agreement insofar as they relate to Collateral shall cease to be of any force or effect, upon satisfaction of the following conditions precedent:

(i) the Borrower shall have given written notice to the Agents at least 30 days prior to the Release Date, specifying the proposed Release Date;

(ii) as of the Release Date, the Borrower shall have obtained, and for a period of not less than 90 consecutive days, maintained Investment Grade Ratings;

(iii) no Default or Event of Default shall have occurred and be continuing as of the Release Date; and

(iv) on the Release Date, the Collateral Agent shall have received a certificate, dated the Release Date and executed on behalf of the Borrower by the



President, a Vice President or a Financial Officer of the Borrower, confirming the satisfaction of the conditions set forth in clauses (ii) and (iii) above.

(b) Subject to the satisfaction of the conditions set forth in paragraph (a) above, on or after the Release Date, the Lenders hereby expressly authorize the Collateral Agent to, and the Collateral Agent hereby agrees to, deliver the Pledged Securities (as defined in the Pledge Agreement) to the Borrower and to execute and deliver to the Borrower all such instruments and documents as the Borrower may reasonably request to effectuate, evidence or confirm the releases of Collateral provided for in this Section 9.19. Any execution and delivery of documents pursuant to this Section 9.19 shall be without recourse to or warranty by the Collateral Agent.

(c) Without limiting the provisions of Section 9.05, the Borrower shall reimburse the Agents and the Lenders upon demand for all costs and expenses, including attorneys fees and disbursements and the allocated costs and disbursements of internal legal counsel, incurred by any of them in connection with any action contemplated by this Section 9.19.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

FLOWSERVE CORPORATION,

by /s/ John M. Nanos
---
Name: John M. Nanos
Title: Assistant Secretary

CREDIT SUISSE FIRST BOSTON,
individually and as Syndication Agent,

by /s/ James P. Moran
---
Name: James P. Moran
Title: Director

by /s/ David W. Kratovil
---
Name: David W. Kratovil
Title: Director

BANK OF AMERICA, N.A.,
individually and as Administrative Agent,
Collateral Agent and Swingline Lender

by /s/ Mark E. Kelley
---

Name: Mark E. Kelley
Title: Managing Director

SALOMON SMITH BARNEY INC.,
as Co-Documentation Agent,

by /s/ Nicolas T. Erni
---
Name: Nicolas T. Erni
Title: Attorney In Fact





BANK ONE, NA,

by /s/ Gina A. Norris
---
Name: Gina A. Norris
Title: Managing Director

ABN AMRO BANK N.V.,

by /s/ Elizabeth Hurst
---
Name: Elizabeth Hurst
Title: Group Vice President

by /s/ C. David Allman
---
Name: C. David Allman
Title: Assistant Vice President

CITICORP USA, INC.,

by /s/ Nicolas T. Erni
---
Name: Nicolas T. Erni
Title: Vice President

SUNTRUST BANK,

by /s/ Linda L. Stanley
---
Name: Linda L. Stanley
Title: Director

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN
BRANCHES,

by /s/ B. Craig Erickson
---
Name: B. Craig Erickson
Title: Vice President

by /s/ Richard Morris
---
Name: Richard Morris
Title: Senior Vice President





HSBC BANK USA,

by /s/ J. B. Lyons
---

Name: J. B. Lyons
Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN, LIMITED NEW YORK BRANCH.,

by /s/ Ryusuke Aya
---
Name: Ryusuke Aya
Title: Senior Vice President, Houston Office

THE BANK OF TOKYO-MITSUBISHI, LTD.,

by /s/ D. Barnell
---
Name: D. Barnell
Title: Vice President

by /s/ J. Mearns
---
Name: J. Mearns
Title: VP & Manager

COMERICA BANK,

by /s/ T. Bancroft Mattei
---
Name: T. Bancroft Mattei
Title: Account Officer

CREDIT AGRICOLE INDOSUEZ,

by /s/ Patrick Cocquerel
---
Name: Patrick Cocquerel
Title: FVP, Managing Director

by /s/ Michael R. Quiray
---
Name: Michael R. Quiray
Title: Vice President
Senior Relationship Manager

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BANK OF CHINA, LOS ANGELES BRANCH,

by /s/ Luo, Xiao Ming
---
Name: Luo, Xiao Ming
Title: Branch Manager

LLOYDS TSB BANK PLC,

by /s/ Peter J. Cannon
---
Name: Peter J. Cannon
Title: Director and Head of Acquisition Finance

by /s/ Ian Dimmock
---
Name: Iam Dimmock
Title: Vice President, Acquisition Finance D080

THE MITSUBISHI TRUST & BANKING CORPORATION,

by /s/ Nobuo Tominaga
---
Name: Nobuo Tominaga
Title: Chief Manager

NATIONAL CITY BANK,

by /s/ Kelly L. Moyer
---
Name: Kelly L. Moyer
Title: Assistant Vice President

ORIX BUSINESS CREDIT, INC.,

by /s/ Michael J. Cox
---
Name: Michael J. Cox
Title: Senior Vice President

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FRANKLIN FLOATING RATE TRUST,

by /s/ Chauncey Lufkin
---
Name: Chauncey Lufkin
Title: Vice President

KZH STERLING LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent

CANADIAN IMPERIAL BANK OF COMMERCE,

by /s/ William M. Swenson
---
Name: William M. Swenson
Title: Authorized Signatory

METROPOLITAN PROPERTY AND CASUALTY
INSURANCE COMPANY,

by /s/ James R. Dingler
---
Name: James R. Dingler
Title: Authorized Signatory

MORGAN STANLEY DEAN WITTER PRIME
INCOME TRUST,

by /s/ Peter Gewirtz
---
Name: Peter Gewirtz
Title: Vice President

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NATEXIS BANQUES POPULAIRES,

by /s/ Daniel Payer
---
Name: Daniel Payer

Title: Assistant Vice President

by /s/ Louis P. Laville, III
---
Name: Louis P. Laville, III
Title: Vice President and Group Manger

HELLER FINANCIAL, INC.,

by /s/ K. Craig Gallehugh
---
Name: K. Craig Gallehugh
Title: Vice President

SAWGRASS TRADING LLC,

by /s/ Ann E. Morris
---
Name: Ann E. Morris
Title: Assistant Vice President

THE TRAVELERS INSURANCE COMPANY,

by /s/ Allen R. Cantrell
---
Name: Allen R. Cantrell
Title: Investment Officer

KZH SOLEIL LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent

KZH SOLEIL-2 LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent



HARCH CLO I LIMITED,

by /s/ Michael E. Lewitt
---
Name: Michael E. Lewitt
Title: Authorized Signatory

By: PPM America, Inc., as Attorney-in-fact,
on behalf of Jackson National Life
Insurance Company,

by /s/ John Walding
---
Name: John Walding
Title: Managing Director

KZH CYPRESSTREE-1 LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent

MONY LIFE INSURANCE COMPANY
OF AMERICA,

by /s/ Barry J. Scheinholtz
---
Name: Barry J. Scheinholtz
Title: Authorized Agent

PPM SPYGLASS FUNDING TRUST,

by /s/ Kelly C. Walker
---
Name: Kelly C. Walker
Title: Authorized Agent





STEIN ROE FLOATING RATE LIMITED
LIABILITY COMPANY,

by /s/ Kathleen A. Zarn
---
Name: Kathleen A. Zarn
Title: Vice President
Stein Roe & Farnham
Incorporated, as Advisor to the
Stein Roe Floating Rate Limited
Liability Company

OLYMPIC FUNDING TRUST, SERIES
1999-1

by /s/ Ashley R. Hamilton
---
Name: Ashley R. Hamilton
Title: Authorized Agent

OSPREY INVESTMENTS PORTFOLIO,
By: Citibank, N.A., as Manager

by /s/ Daniel Slotkin
---
Name: Daniel Slotkin
Title: Vice President

GALAXY CLO 1999-1, LTD.,
By: SAI Investment Adviser, Inc.
its Collateral Manager,

by /s/ John Lapham
---
Name: John Lapham
Title: Authorized Agent

KZH CRESCENT-2 LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent





KZH RIVERSIDE LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett

Title: Authorized Agent

MONY LIFE INSURANCE COMPANY,

by /s/ Barry J. Scheinholtz
---
Name: Barry J. Scheinholtz
Title: Investment Vice President

THE SUMITOMO TRUST & BANKING
CO., LTD., NEW YORK BRANCH,

by /s/ Stephanie Fowler
---
Name: Stephanie Fowler
Title: Vice President

TORONTO DOMINION (NEW YORK),
INC.,

by /s/ Gwen Zirkle
---
Name: Gwen Zirkle
Title: Vice President

TRAVELERS CORPORATE LOAN FUND INC.,
By: TRAVELERS ASSET
MANAGEMENT INTERNATIONAL COMPANY LLC,

by /s/ Allen R. Cantrell
---
Name: Allen R. Cantrell
Title: Investment Officer



KZH CRESCENT-3 LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent

SRF 2000 LLC,

by /s/ Ann E. Morris
---
Name: Ann E. Morris
Title: Assistant Vice President

KZH CRESCENT LLC,

by /s/ Scott Hignett
---
Name: Scott Hignett
Title: Authorized Agent

UNITED OF OMAHA LIFE INSURANCE
COMPANY,
By: TCW Asset Management Company,
its Investment Advisor,

by /s/ Mark L. Gold
---
Name: Mark L. Gold
Title: Managing Director

by /s/ Richard F. Kurth
---
Name: Richard F. Kurth

Title: Vice President

CONTINENTAL ASSURANCE COMPANY SEPARATE ACCOUNT (E)
By: TCW Asset Management Company as Attorney-in-Fact,

by /s/ Mark L. Gold
---
Name: Mark L. Gold
Title: Managing Director

by /s/ Richard F. Kurth
---
Name: Richard F. Kurth
Title: Vice President



FRANKLIN FLOATING RATE MASTER SERIES,

by /s/ Chauncey Lufkin
---
Name: Chauncey Lufkin
Title: Vice President

KEMPER FLOATING RATE FUND,

by /s/ Kelly D. Babson
---
Name: Kelly D. Babson
Title: Managing Director

LIBERTY - STEIN ROE ADVISOR FLOATING RATE ADVANTAGE FUND
By: Stein Roe & Farnham Incorporated, as Advisor,

by /s/ Kathleen A. Zarn
---
Name: Kathleen A. Zarn
Title: Vice President

NORTH AMERICAN SENIOR FLOATING RATE FUND,

By: CypressTree Investment Management Company, Inc. as Portfolio Manager,

by /s/ Jeffery W. Heuer
---
Name: Jeffery W. Heuer
Title: Principal



CYPRESSTREE INVESTMENT FUND, LLC

By: CypressTree Investment Management Company, Inc. its Managing Member,

by /s/ Jeffrey W. Heuer
---
Name: Jeffrey W. Heuer

Title: Principal

CYPRESSTREE INVESTMENT MANAGEMENT
COMPANY, INC.,

As: Attorney-in-Fact and on behalf of First
Allmerica Financial Life Insurance
Company as Portfolio Manager

by /s/ Jeffrey W. Heuer
---

Name: Jeffrey W. Heuer
Title: Principal



SCHEDULE 1.01(d)

Consolidated EBITDA, for any fiscal quarter ending on a date set forth below, shall be equal to the actual Consolidated EBITDA of the Borrower and IDP for such fiscal quarter plus the amount representing synergies and cost savings set forth opposite such fiscal quarter below:

| Date | Amount |
|---|---|
| September 30, 2000 | $ 36,000,000 |
| December 31, 2000 | $ 24,000,000 |
| March 31, 2001 | $ 12,000,000 |

EXHIBIT 10.46

EXECUTION COPY

SECURITY AGREEMENT dated as of August 8, 2000, among FLOWSERVE CORPORATION, a New York corporation (the "Borrower"), each Subsidiary of the Borrower listed on Schedule I hereto (each such Subsidiary individually a "Guarantor" and collectively, the "Guarantors"; the Guarantors and the Borrower are referred to collectively herein as the "Grantors") and BANK OF AMERICA, N.A., a national banking association ("BofA"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined herein).

Reference is made to (a) the Credit Agreement dated as of August 8, 2000 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the lenders from time to time party thereto (the "Lenders"), Credit Suisse First Boston, as syndication agent, and BofA, as swingline lender, administrative agent and Collateral Agent and (b) the Guarantee Agreement dated as of August 8, 2000 (as amended, supplemented or otherwise modified from time to time, the "Guarantee Agreement"), among the Guarantors and the Collateral Agent.

The Lenders have agreed to make Loans to the Borrower, and the Issuing Banks have agreed to issue Letters of Credit for the account of the Borrower, pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. Each of the Guarantors has agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement. The obligations of the Lenders to make Loans and of the Issuing Banks to issue Letters of Credit are conditioned upon, among other things, the execution and delivery by the Grantors of an agreement in the form hereof to secure (a) the due and punctual payment by the Borrower of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by the Borrower under the Credit Agreement in respect of any Letter of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral and (iii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Borrower to the Secured Parties under the Credit Agreement and the other Loan Documents, (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Borrower under or pursuant to the Credit Agreement and the other Loan Documents, (c) the due and punctual payment and performance of all the covenants, agreements, obligations and liabilities of each Loan Party under or pursuant to this Agreement and the other Loan Documents, (d) the due and punctual payment and performance of all obligations of the Borrower under each Hedging Agreement entered into with any counterparty that was a Lender (or an Affiliate of a Lender) at the time such Hedging Agreement was entered into, (e) the due and punctual payment and performance of all obligations of the Borrower and the Guarantors pursuant to the ABN Standby Credit not incurred in violation of the Credit Agreement, and (f) each payment required to be made by the Borrower or any Guarantor in respect of any Fifth Third Letter of Credit, when and as due, including payments in respect of reimbursement of disbursements and interest thereon (all the monetary and other obligations described in the preceding clauses (a) through (f) being collectively referred to as the "Obligations").





Accordingly, the Grantors and the Collateral Agent, on behalf of itself and each Secured Party (and each of their respective successors or assigns),

hereby agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definition of Terms Used Herein. Unless the context otherwise requires, all capitalized terms used but not defined herein shall have the meanings set forth in the Credit Agreement and all references to the Uniform Commercial Code shall mean the Uniform Commercial Code in effect in the State of New York on the date hereof.

SECTION 1.02. Definition of Certain Terms Used Herein. As used herein, the following terms shall have the following meanings:

"Account Debtor" shall mean any person who is or who may become obligated to any Grantor under, with respect to or on account of an Account.

"Accounts" shall mean any and all right, title and interest of any Grantor to payment for goods and services sold or leased, including any such right evidenced by chattel paper, whether due or to become due, whether or not it has been earned by performance, and whether now or hereafter acquired or arising in the future, including accounts receivable from Affiliates of the Grantors.

"Accounts Receivable" shall mean all Accounts and all right, title and interest in any returned goods, together with all rights, titles, securities and guarantees with respect thereto, including any rights to stoppage in transit, replevin, reclamation and resales, and all related security interests, liens and pledges, whether voluntary or involuntary, in each case whether now existing or owned or hereafter arising or acquired.

"Chattel Paper" shall mean (a) a writing or writings which evidence both a monetary obligation and a security interest in or a lease of specific Equipment and (b) all other property now or hereafter constituting "chattel paper" under the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions, in each case that are now or hereafter owned by any Grantor.

"Collateral" shall mean all (a) Accounts Receivable, (b) Documents, (c) Chattel Paper, (d) Equipment, (e) General Intangibles, (f) Inventory, (g) cash and cash accounts, (h) Investment Property and (i) Proceeds, except any Equipment that is subject to a purchase money lien permitted under the Credit Agreement in favor of any person (other than the Collateral Agent) if the documents relating to such lien do not permit other liens.

"Commodity Account" shall mean an account maintained by a Commodity Intermediary in which a Commodity Contract is carried out for a Commodity Customer.

"Commodity Contract" shall mean a commodity futures contract, an option on a commodity futures contract, a commodity option or any other contract that, in each case, is (a) traded on or subject to the rules of a board of trade that has been designated as a contract market for such a contract pursuant to the federal commodities laws or (b) traded on a foreign



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commodity board of trade, exchange or market, and is carried on the books of a Commodity Intermediary for a Commodity Customer.

"Commodity Customer" shall mean a person for whom a Commodity Intermediary carries a Commodity Contract on its books.

"Commodity Intermediary" shall mean (a) a person who is registered as a futures commission merchant under the federal commodities laws or (b) a person who in the ordinary course of its business provides clearance or settlement services for a board of trade that has been designated as a contract market pursuant to federal commodities laws.

"Copyright License" shall mean any written agreement, now or hereafter in

effect, granting any right to any third party under any Copyright now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, or granting any right to such Grantor under any copyright now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Copyrights" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise, and (b) all registrations and applications for registration of any such copyright in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office, including those listed on Schedule II.

"Credit Agreement" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Documents" shall mean all instruments, files, records, ledger sheets and documents covering or relating to any of the Collateral.

"Entitlement Holder" shall mean a person identified in the records of a Securities Intermediary as the person having a Security Entitlement against the Securities Intermediary. If a person acquires a Security Entitlement by virtue of Section 8-501(b)(2) or (3) of the Uniform Commercial Code, such person is the Entitlement Holder.

"Equipment" shall mean all equipment, furniture and furnishings, and all tangible personal property similar to any of the foregoing, including tools, parts and supplies of every kind and description, and all improvements, accessions or appurtenances thereto, that are now or hereafter owned by any Grantor. The term Equipment shall include Fixtures.

"Equity Interest" shall mean shares of capital stock, partnership interests, membership interests in a limited liability company or beneficial interests in a trust or other equity ownership interests in a person.

"Financial Asset" shall mean (a) a Security, (b) an obligation of a person or a share, participation or other interest in a person or in property or an enterprise of a person, which is, or is of a type, dealt with in or traded on financial markets, or which is recognized in any area in which it is issued or dealt in as a medium for investment or (c) any property that is held by a Securities Intermediary for another person in a Securities Account if the Securities Intermediary has expressly agreed with the other person that the property is to be treated as



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a Financial Asset under Article 8 of the Uniform Commercial Code. As the context requires, the term Financial Asset shall mean either the interest itself or the means by which a person's claim to it is evidenced, including a certificated or uncertificated Security, a certificate representing a Security or a Security Entitlement.

"Fixtures" shall mean all items of Equipment, whether now owned or hereafter acquired, of any Grantor that become so related to particular real estate that an interest in them arises under any real estate law applicable thereto.

"General Intangibles" shall mean all choses in action and causes of action and all other assignable intangible personal property of any Grantor of every kind and nature (other than Accounts Receivable) now owned or hereafter acquired by any Grantor, including all rights and interests in partnerships, limited partnerships, limited liability companies and other unincorporated entities, corporate or other business records, indemnification claims, contract rights (including rights under leases, whether entered into as lessor or lessee, Hedging Agreements and other agreements), Intellectual Property, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Grantor to secure payment by an Account Debtor of any of the Accounts Receivable.

"Hedging Agreement" shall mean any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Intellectual Property" shall mean all intellectual and similar property of any Grantor of every kind and nature now owned or hereafter acquired by any Grantor, including inventions, designs, Patents, Copyrights, Licenses, Trademarks, trade secrets, confidential or proprietary technical and business information, know-how, show-how or other data or information, software and databases and all embodiments or fixations thereof and related documentation, registrations and franchises, and all additions, improvements and accessions to, and books and records describing or used in connection with, any of the foregoing.

"Inventory" shall mean all goods of any Grantor, whether now owned or hereafter acquired, held for sale or lease, or furnished or to be furnished by any Grantor under contracts of service, or consumed in any Grantor's business, including raw materials, intermediates, work in process, packaging materials, finished goods, semi-finished inventory, scrap inventory, manufacturing supplies and spare parts, and all such goods that have been returned to or repossessed by or on behalf of any Grantor.

"Investment Property" shall mean all Securities (whether certificated or uncertificated), Security Entitlements, Securities Accounts, Commodity Contracts, Commodity Accounts and Equity Interests of any Grantor, whether now owned or hereafter acquired by any Grantor.

"License" shall mean any Patent License, Trademark License, Copyright License or other license or sublicense to which any Grantor is a party, including those listed on Schedule III (other than those license agreements in existence on the date hereof and listed on Schedule III and those license agreements entered into after the date hereof, which by their terms prohibit (whether through automatic termination, the requirement of consent or otherwise) assignment or a grant of a security interest by such Grantor as licensee thereunder).



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"Obligations" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Patent License" shall mean any written agreement, now or hereafter in effect, granting to any third party any right to make, use or sell any invention on which a Patent, now or hereafter owned by any Grantor or which any Grantor otherwise has the right to license, is in existence, or granting to any Grantor any right to make, use or sell any invention on which a patent, now or hereafter owned by any third party, is in existence, and all rights of any Grantor under any such agreement.

"Patents" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all letters patent of the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of the United States or any other country, including registrations, recordings and pending applications in the United States Patent and Trademark Office or any similar offices in any other country, including those listed on Schedule IV, and (b) all reissues, continuations, divisions, continuations-in-part, renewals or extensions thereof, and the inventions disclosed or claimed therein, including the right to exclude others from making, using and/or selling the inventions disclosed or claimed therein.

"Perfection Certificate" shall mean a certificate substantially in the form of Annex 1 hereto, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by a Financial Officer of or legal counsel for the Borrower.

"Proceeds" shall mean any consideration received from the sale, exchange, license, lease or other disposition of any asset or property that constitutes Collateral, any value received as a consequence of the possession of any Collateral and any payment received from any insurer or other person or entity as a result of the destruction, loss, theft, damage or other involuntary

conversion of whatever nature of any asset or property which constitutes Collateral, and shall include, (a) any claim of any Grantor against any third party for (and the right to sue and recover for and the rights to damages or profits due or accrued arising out of or in connection with) (i) past, present or future infringement of any Patent now or hereafter owned by any Grantor, or licensed under a Patent License, (ii) past, present or future infringement or dilution of any Trademark now or hereafter owned by any Grantor or licensed under a Trademark License or injury to the goodwill associated with or symbolized by any Trademark now or hereafter owned by any Grantor, (iii) past, present or future breach of any License and (iv) past, present or future infringement of any Copyright now or hereafter owned by any Grantor or licensed under a Copyright License and (b) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Parties" shall mean (a) the Lenders, (b) the Administrative Agent, (c) the Collateral Agent, (d) the Issuing Banks, (e) each counterparty to a Hedging Agreement entered into with the Borrower if such counterparty was a Lender (or an Affiliate of a Lender) at the time the Hedging Agreement was entered into, (f) the beneficiaries of each indemnification obligation undertaken by any Grantor under any Loan Document, (g) in respect of the ABN Standby Credit, ABN Amro Bank N.V. and its Affiliates, (h) in respect of the Fifth Third Letters of Credit, Fifth Third Bancorp and its subsidiaries and (i) the successors and assigns of each of the foregoing.



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"Securities" shall mean any obligations of an issuer or any shares, participations or other interests in an issuer or in property or an enterprise of an issuer which (a) are represented by a certificate representing a security in bearer or registered form, or the transfer of which may be registered upon books maintained for that purpose by or on behalf of the issuer, (b) are one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations and (c) (i) are, or are of a type, dealt with or traded on securities exchanges or securities markets or (ii) are a medium for investment and by their terms expressly provide that they are a security governed by Article 8 of the Uniform Commercial Code, provided that "Securities" shall not include more than 65% of the voting equity interests of any non-United States issuer.

"Securities Account" shall mean an account to which a Financial Asset is or may be credited in accordance with an agreement under which the person maintaining the account undertakes to treat the person for whom the account is maintained as entitled to exercise rights that comprise the Financial Asset.

"Securities Intermediary" shall mean (a) a clearing corporation or (b) a person, including a bank or broker, that in the ordinary course of its business maintains Securities Accounts for others and is acting in that capacity.

"Security Entitlements" shall mean the rights and property interests of an Entitlement Holder with respect to a Financial Asset.

"Security Interest" shall have the meaning assigned to such term in Section 2.01.

"Trademark License" shall mean any written agreement, now or hereafter in effect, granting to any third party any right to use any Trademark now or hereafter owned by any Grantor or which any Grantor otherwise has the right to license, or granting to any Grantor any right to use any trademark now or hereafter owned by any third party, and all rights of any Grantor under any such agreement.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and registration applications (but excluding any United States intent-to-use applications prior to the filing and acceptance of a Statement of Use or an Amendment to allege use in connection therewith to the extent a valid security

interest may not be taken in such an intent-to-use application under applicable law) in the United States Patent and Trademark Office, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, including those listed on Schedule V, (b) all goodwill associated therewith or symbolized thereby and (c) all other assets, rights and interests that uniquely reflect or embody such goodwill.

SECTION 1.03. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.



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ARTICLE II

Security Interest

SECTION 2.01. Security Interest. As security for the payment or performance, as the case may be, in full of the Obligations, and any extensions, renewals, modifications or refinancings of the Obligations, each Grantor hereby bargains, sells, conveys, assigns, sets over, mortgages, pledges, hypothecates and transfers to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, and hereby grants to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, a security interest in, all of such Grantor's right, title and interest in, to and under the Collateral (the "Security Interest"). Without limiting the foregoing, the Collateral Agent is hereby authorized to file one or more financing statements (including fixture filings), continuation statements, filings with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or any similar office in any other country) or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Grantor, without the signature of any Grantor, and naming any Grantor or the Grantors as debtors and the Collateral Agent as secured party.

SECTION 2.02. No Assumption of Liability. The Security Interest is granted as security only and shall not subject the Collateral Agent or any other Secured Party to, or in any way alter or modify, any obligation or liability of any Grantor with respect to or arising out of the Collateral.

ARTICLE III

Representations and Warranties

The Grantors jointly and severally represent and warrant to the Collateral Agent and the Secured Parties that:

SECTION 3.01. Title and Authority. Each Grantor has good and valid rights in and title to the Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the Collateral Agent the Security Interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other person other than any consent or approval which has been obtained.

SECTION 3.02. Filings. (a) The Perfection Certificate has been duly prepared, completed and executed and the information set forth therein is correct and complete in all material respects. Fully executed Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations containing a description of the Collateral have been delivered to the Collateral Agent for filing in each governmental, municipal or other office specified in Schedule 6 to the Perfection Certificate, which are all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Collateral consisting of United States Patents, Trademarks and Copyrights) that are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the ratable benefit of the Secured Parties) in respect of all

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Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements or with respect to the filing of amendments or new filings to reflect the change of any Grantor's name, location, identity or corporate structure.

(b) Each Grantor represents and warrants that fully executed security agreements in the form hereof and containing a description of all Collateral consisting of Intellectual Property with respect to United States Patents and United States registered Trademarks (and Trademarks for which United States registration applications (other than any United States intent-to-use applications prior to the filing and acceptance of a Statement of Use or an Amendment to allege use in connection therewith) are pending) and United States registered Copyrights have been delivered to the Collateral Agent for recording by the United States Patent and Trademark Office and the United States Copyright Office pursuant to 35 U.S.C. Section 261, 15 U.S.C. Section 1060 or 17 U.S.C. Section 205 and the regulations thereunder, as applicable, and otherwise as may be required pursuant to the laws of any other necessary jurisdiction, to protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the ratable benefit of the Secured Parties) in respect of all Collateral consisting of Patents, Trademarks and Copyrights in which a security interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, or in any other necessary jurisdiction, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Collateral consisting of Patents, Trademarks and Copyrights (or registration or application for registration thereof) acquired or developed after the date hereof).

SECTION 3.03. Validity of Security Interest. The Security Interest constitutes (a) a legal and valid security interest in all the Collateral securing the payment and performance of the Obligations, (b) subject to the filings described in Section 3.02 above, a perfected security interest in all Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial Code or other applicable law in such jurisdictions and (c) a security interest that shall be perfected in all Collateral in which a security interest may be perfected upon the receipt and recording of this Agreement with the United States Patent and Trademark Office and the United States Copyright Office, as applicable and otherwise as may be required pursuant to the laws of any other necessary jurisdiction. The Security Interest is and shall be prior to any other Lien on any of the Collateral, other than Liens expressly permitted to be prior to the Security Interest pursuant to Section 6.02 of the Credit Agreement.

SECTION 3.04. Absence of Other Liens. The Collateral is owned by the Grantors free and clear of any Lien, except for Liens expressly permitted pursuant to Section 6.02 of the Credit Agreement. Grantor has not filed or consented to the filing of (a) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Collateral, (b) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (c) any assignment in which any Grantor assigns any Collateral or any security agreement or similar



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instrument covering any Collateral with any foreign governmental, municipal or

other office, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, except, in each case, for Liens expressly permitted pursuant to Section 6.02 of the Credit Agreement.

ARTICLE IV

Covenants

SECTION 4.01. Change of Name; Location of Collateral; Records; Place of Business. (a) Each Grantor agrees promptly to notify the Collateral Agent in writing of any change (i) in its corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of its chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in its identity or corporate structure or (iv) in its Federal Taxpayer Identification Number. Each Grantor agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected first priority security interest in all the Collateral. Each Grantor agrees promptly to notify the Collateral Agent if any material portion of the Collateral owned or held by such Grantor is damaged or destroyed.

(b) Each Grantor agrees to maintain, at its own cost and expense, such complete and accurate records with respect to the Collateral owned by it as is consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which such Grantor is engaged, but in any event to include complete accounting records indicating all payments and proceeds received with respect to any part of the Collateral, and, at such time or times as the Collateral Agent may reasonably request, promptly to prepare and deliver to the Collateral Agent a duly certified schedule or schedules in form and detail satisfactory to the Collateral Agent showing the identity, amount and location of any and all Collateral.

SECTION 4.02. Periodic Certification. Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to Section 5.04 of the Credit Agreement, the Borrower shall deliver to the Collateral Agent a certificate executed by a Financial Officer of or legal counsel for the Borrower (a) setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of such certificate or the date of the most recent certificate delivered pursuant to this Section 4.02 and (b) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (a) above to the extent necessary to protect and perfect the Security Interest for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period). Each certificate delivered pursuant to this Section 4.02 shall identify in the format of Schedule II, III, IV or V, as applicable, all Intellectual Property of any Grantor material to the conduct of any



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Grantor's business in existence on the date thereof and not then listed on such Schedules or previously so identified to the Collateral Agent.

SECTION 4.03. Protection of Security. Each Grantor shall, at its own cost and expense, take any and all actions necessary to defend title to the Collateral against all persons and to defend the Security Interest of the Collateral Agent in the Collateral and the priority thereof against any Lien not expressly permitted pursuant to Section 6.02 of the Credit Agreement.

SECTION 4.04. Further Assurances. Each Grantor agrees, at its own

expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Collateral Agent may from time to time request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the Security Interest and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately pledged and delivered to the Collateral Agent, duly endorsed in a manner satisfactory to the Collateral Agent.

Without limiting the generality of the foregoing, each Grantor hereby authorizes the Collateral Agent, with prompt notice thereof to the Grantors, to supplement this Agreement by supplementing Schedule II, III, IV or V hereto or adding additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided, however, that any Grantor shall have the right, exercisable within 10 days after it has been notified by the Collateral Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Grantor hereunder with respect to such Collateral. Each Grantor agrees that it will use its best efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct with respect to such Collateral within 30 days after the date it has been notified by the Collateral Agent of the specific identification of such Collateral.

SECTION 4.05. Inspection and Verification. The Collateral Agent and such persons as the Collateral Agent may reasonably designate shall have the right, at the Grantors' own cost and expense, to inspect the Collateral, all records related thereto (and to make extracts and copies from such records) and the premises upon which any of the Collateral is located, to discuss the Grantors' affairs with the officers of the Grantors and their independent accountants and to verify under reasonable procedures the validity, amount, quality, quantity, value, condition and status of, or any other matter relating to, the Collateral, including, in the case of Accounts or Collateral in the possession of any third person, by contacting Account Debtors or the third person possessing such Collateral for the purpose of making such a verification. The Collateral Agent shall have the absolute right to share any information it gains from such inspection or verification with any Secured Party (it being understood that any such information shall be deemed to be "Information" subject to the provisions of Section 9.16).

SECTION 4.06. Taxes; Encumbrances. At its option, the Collateral Agent may discharge past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Collateral and not permitted pursuant to



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Section 6.02 of the Credit Agreement, and may pay for the maintenance and preservation of the Collateral to the extent any Grantor fails to do so as required by the Credit Agreement or this Agreement, and each Grantor jointly and severally agrees to reimburse the Collateral Agent on demand for any payment made or any expense incurred by the Collateral Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section 4.06 shall be interpreted as excusing any Grantor from the performance of, or imposing any obligation on the Collateral Agent or any Secured Party to cure or perform, any covenants or other promises of any Grantor with respect to taxes, assessments, charges, fees, liens, security interests or other encumbrances and maintenance as set forth herein or in the other Loan Documents.

SECTION 4.07. Assignment of Security Interest. If at any time any Grantor shall take a security interest in any property of an Account Debtor or any other person to secure payment and performance of an Account, such Grantor shall promptly assign such security interest to the Collateral Agent. Such assignment need not be filed of public record unless necessary to continue the perfected status of the security interest against creditors of and transferees from the Account Debtor or other person granting the security interest.

SECTION 4.08. Continuing Obligations of the Grantors. Each Grantor shall remain liable to observe and perform all the conditions and obligations to be observed and performed by it under each contract, agreement or instrument relating to the Collateral, all in accordance with the terms and conditions thereof, and each Grantor jointly and severally agrees to indemnify and hold harmless the Collateral Agent and the Secured Parties from and against any and all liability for such performance.

SECTION 4.09. Use and Disposition of Collateral. None of the Grantors shall make or permit to be made an assignment, pledge or hypothecation of the Collateral or shall grant any other Lien in respect of the Collateral, except as expressly permitted by Section 6.02 of the Credit Agreement; provided, however, that nothing herein shall be construed to prohibit the Grantors from granting or receiving any licenses or sub-licenses of Intellectual Property. None of the Grantors shall make or permit to be made any transfer of the Collateral and each Grantor shall remain at all times in possession of the Collateral owned by it, except that (a) Inventory may be sold in the ordinary course of business and (b) unless and until the Collateral Agent shall notify the Grantors that an Event of Default shall have occurred and be continuing and that during the continuance thereof the Grantors shall not sell, convey, lease, assign, transfer or otherwise dispose of any Collateral (which notice may be given by telephone if promptly confirmed in writing), the Grantors may use and dispose of the Collateral in any lawful manner not inconsistent with the provisions of this Agreement, the Credit Agreement or any other Loan Document. Without limiting the generality of the foregoing, each Grantor agrees that it shall not permit any Inventory to be in the possession or control of any warehouseman, bailee, agent or processor at any time unless such warehouseman, bailee, agent or processor shall have been notified of the Security Interest and shall have agreed in writing to hold the Inventory subject to the Security Interest and the instructions of the Collateral Agent and to waive and release any Lien held by it with respect to such Inventory, whether arising by operation of law or otherwise.

SECTION 4.10. Limitation on Modification of Accounts. None of the Grantors will, without the Collateral Agent's prior written consent, grant any extension of the time of payment of any of the Accounts Receivable, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits,



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discounts, compromises or settlements granted or made in the ordinary course of business and consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which such Grantor is engaged.

SECTION 4.11. Insurance. The Grantors, at their own expense, shall maintain or cause to be maintained insurance covering physical loss or damage to the Inventory and Equipment in accordance with Section 5.02 of the Credit Agreement. Each Grantor irrevocably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of Collateral under policies of insurance, endorsing the name of such Grantor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that any Grantor at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby or to pay any premium in whole or part relating thereto, the Collateral Agent may, without waiving or releasing any obligation or liability of the Grantors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Collateral Agent deems advisable. All sums disbursed by the Collateral Agent in connection with this Section 4.11, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Grantors to the Collateral Agent and shall be additional Obligations secured hereby.

SECTION 4.12. Covenants Regarding Patent, Trademark and Copyright

Collateral. (a) Each Grantor agrees that it will not, and it will exercise its reasonable best efforts to ensure that its licensees will not, do any act, or omit to do any act, whereby any Patent that is material to the conduct of such Grantor's business may become invalidated or dedicated to the public, and agrees that it shall continue to mark any products covered by a Patent with the relevant patent number as necessary and sufficient to establish and preserve its maximum rights under applicable patent laws.

(b) Each Grantor (either itself or through its licensees or its sublicensees) will, for each Trademark that is material to the conduct of such Grantor's business, (i) maintain such Trademark in full force free from any claim of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademark, (iii) display such Trademark with notice of Federal or foreign registration to the extent necessary and sufficient to establish and preserve its maximum rights under applicable law and (iv) not knowingly use or knowingly permit the use of such Trademark in violation of any third party rights.

(c) Each Grantor (either itself or through licensees) will, for each work covered by a Copyright that is material to the conduct of any Grantor's business, continue to publish, reproduce, display, adopt and distribute the work with appropriate copyright notice as necessary and sufficient to establish and preserve its maximum rights under applicable copyright laws.

(d) Each Grantor shall notify the Collateral Agent immediately if it knows or has reason to know that any Patent, Trademark or Copyright material to the conduct of its business may become abandoned, lost or dedicated to the public, or of any materially adverse determination or development (including the institution of, or any such determination or



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development in, any proceeding in the United States Patent and Trademark Office, United States Copyright Office or any court or similar office of any country) regarding such Grantor's ownership of any Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same.

(e) In no event shall any Grantor, either itself or through any agent, employee, licensee or designee, file an application for any Patent, Trademark or Copyright (or for the registration of any Trademark or Copyright) with the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, unless it promptly informs the Collateral Agent, and, upon request of the Collateral Agent, executes and delivers any and all agreements, instruments, documents and papers as the Collateral Agent may reasonably request to evidence the Collateral Agent's security interest in such Patent, Trademark or Copyright, and each Grantor hereby appoints the Collateral Agent as its attorney-in-fact to execute and file such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable.

(f) Each Grantor will take all necessary steps that are consistent with the practice in any proceeding before the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, to maintain and pursue each material application relating to the Patents, Trademarks and/or Copyrights (and to obtain the relevant grant or registration) and to maintain each issued Patent and each registration of the Trademarks and Copyrights that is material to the conduct of any Grantor's business, including timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if consistent with good business judgment, to initiate opposition, interference and cancelation proceedings against third parties.

(g) In the event that any Grantor has reason to believe that any Collateral consisting of a Patent, Trademark or Copyright material to the conduct of any Grantor's business has been or is about to be infringed, misappropriated or diluted by a third party, such Grantor promptly shall notify the Collateral Agent and shall, if consistent with good business judgment, sue for infringement, misappropriation or dilution and to recover any and all

damages for such infringement, misappropriation or dilution, and take such other actions as are appropriate under the circumstances to protect such Collateral.

(h) Upon and during the continuance of an Event of Default, each Grantor shall use its best efforts to obtain all requisite consents or approvals by the licensor of each Copyright License, Patent License or Trademark License to effect the assignment of all of such Grantor's right, title and interest thereunder to the Collateral Agent or its designee.

ARTICLE V

Power of Attorney

Each Grantor irrevocably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent and attorney-in-fact, and in such capacity the Collateral Agent shall have



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the right, with power of substitution for each Grantor and in each Grantor's name or otherwise, for the use and benefit of the Collateral Agent and the Secured Parties, upon the occurrence and during the continuance of an Event of Default (a) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to sign the name of any Grantor on any invoice or bill of lading relating to any of the Collateral; (d) to send verifications of Accounts Receivable to any Account Debtor; (e) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (f) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (g) to notify, or to require any Grantor to notify, Account Debtors to make payment directly to the Collateral Agent; and (h) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Collateral Agent were the absolute owner of the Collateral for all purposes; provided, however, that nothing herein contained shall be construed as requiring or obligating the Collateral Agent or any Secured Party to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent or any Secured Party, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken or omitted to be taken by the Collateral Agent or any Secured Party with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of any Grantor or to any claim or action against the Collateral Agent or any Secured Party. It is understood and agreed that the appointment of the Collateral Agent as the agent and attorney-in-fact of the Grantors for the purposes set forth above is coupled with an interest and is irrevocable. The provisions of this Section shall in no event relieve any Grantor of any of its obligations hereunder or under any other Loan Document with respect to the Collateral or any part thereof or impose any obligation on the Collateral Agent or any Secured Party to proceed in any particular manner with respect to the Collateral or any part thereof, or in any way limit the exercise by the Collateral Agent or any Secured Party of any other or further right which it may have on the date of this Agreement or hereafter, whether hereunder, under any other Loan Document, by law or otherwise.

ARTICLE VI

Remedies

SECTION 6.01. Remedies upon Default. Upon the occurrence and during the continuance of an Event of Default, each Grantor agrees to deliver each item of Collateral to the Collateral Agent on demand, and it is agreed that the Collateral Agent shall have the right to take any of or all the following actions at the same or different times: (a) with respect to any Collateral

consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Collateral by the applicable Grantors to the Collateral Agent, or to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Collateral Agent shall determine (other than in violation of any then-existing licensing



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arrangements to the extent that waivers cannot be obtained), and (b) with or without legal process and with or without prior notice or demand for performance, to take possession of the Collateral and without liability for trespass to enter any premises where the Collateral may be located for the purpose of taking possession of or removing the Collateral, exercise any Grantor's right to bill and receive payment for completed work and, generally, to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each Grantor agrees that the Collateral Agent shall have the right, subject to the mandatory requirements of applicable law, to sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Grantor, and each Grantor hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which such Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Collateral Agent shall give the Grantors 10 days' written notice (which each Grantor agrees is reasonable notice within the meaning of Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the notice (if any) of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public (or, to the extent permitted by law, private) sale made pursuant to this Section, any Secured Party may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any Grantor (all said rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to such Secured Party from any Grantor as a credit against the purchase price, and such Secured Party may, upon compliance with the

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terms of sale, hold, retain and dispose of such property without further accountability to any Grantor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Collateral Agent shall be free to carry out such sale pursuant to such agreement and no Grantor shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver.

SECTION 6.02. Application of Proceeds. The Collateral Agent shall apply the proceeds of any collection or sale of the Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all costs and expenses incurred by the Administrative Agent or the Collateral Agent (in its capacity as such hereunder or under any other Loan Document) in connection with such collection or sale or otherwise in connection with this Agreement or any of the Obligations, including all court costs and the fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Loan Document on behalf of any Grantor and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Grantors, their successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 6.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise rights and remedies under this Article at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to the Collateral Agent an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to the Grantors) to use, license or sub-license any of the Collateral consisting of Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or



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printout thereof. The use of such license by the Collateral Agent may be exercised, at the option of the Collateral Agent, upon the occurrence and during the continuation of an Event of Default; provided that any license, sub-license or other transaction entered into by the Collateral Agent in accordance herewith

shall be binding upon the Grantors notwithstanding any subsequent cure of an Event of Default.

## ARTICLE VII

## Miscellaneous

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 9.01 of the Credit Agreement. All communications and notices hereunder to any Guarantor shall be given to it in care of the Borrower.

SECTION 7.02. Security Interest Absolute. All rights of the Collateral Agent hereunder, the Security Interest and all obligations of the Grantors hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations, or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Grantor in respect of the Obligations or this Agreement (other than the indefeasible payment in full of all the Obligations and termination of all commitments of the Lenders and the Issuing Banks).

SECTION 7.03. Survival of Agreement. All covenants, agreements, representations and warranties made by any Grantor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Secured Parties and shall survive the making by the Lenders of the Loans, and the execution and delivery to the Lenders of any notes evidencing such Loans, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect until this Agreement shall terminate.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any Grantor when a counterpart hereof executed on behalf of such Grantor shall have been delivered to the Collateral Agent and a counterpart hereof shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such Grantor and the Collateral Agent and their respective successors and assigns, and shall inure to the benefit of such Grantor, the Collateral Agent and the other Secured Parties and their respective successors and assigns, except that no Grantor shall have the right to assign or transfer its rights or obligations hereunder or any interest herein or in the Collateral (and any such assignment or transfer shall be void) except as expressly contemplated by this Agreement or the Credit Agreement. This Agreement shall be construed as a separate agreement with respect to each Grantor and may be amended, modified, supplemented,



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waived or released with respect to any Grantor without the approval of any other Grantor and without affecting the obligations of any other Grantor hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Grantor or the Collateral Agent that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 7.06. Collateral Agent's Fees and Expenses; Indemnification. (a) Each Grantor jointly and severally agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees, disbursements and other charges of its counsel and of any experts or agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral, (iii)

the exercise, enforcement or protection of any of the rights of the Collateral Agent hereunder or (iv) the failure of any Grantor to perform or observe any of the provisions hereof.

(b) Without limitation of its indemnification obligations under the other Loan Documents, each Grantor jointly and severally agrees to indemnify the Collateral Agent and the other Indemnitees against, and hold each of them harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable fees, disbursements and other charges of counsel, incurred by or asserted against any of them arising out of, in any way connected with, or as a result of, the execution, delivery or performance of this Agreement or any claim, litigation, investigation or proceeding relating hereto or to the Collateral, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 7.06 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Collateral Agent or any Lender. All amounts due under this Section 7.06 shall be payable on written demand therefor.

SECTION 7.07. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF.

SECTION 7.08. Waivers; Amendment. (a) No failure or delay of the Collateral Agent in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent hereunder and of the Collateral Agent, the Issuing Banks, the



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Administrative Agent and the Lenders under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provisions of this Agreement or any other Loan Document or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Grantor in any case shall entitle such Grantor or any other Grantor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Collateral Agent and Grantor with respect to which such waiver, amendment or modification is to apply, subject to any consent required in accordance with Section 9.08 of the Credit Agreement.

SECTION 7.09. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.09.

SECTION 7.10. Severability. In the event any one or more of the

provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract (subject to Section 7.04), and shall become effective as provided in Section 7.04. Delivery of an executed signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

SECTION 7.12. Headings. Article and Section headings used herein are for the purpose of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.



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SECTION 7.13. Jurisdiction; Consent to Service of Process. (a) Each Grantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final non-appealable judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent, the Administrative Agent, the Issuing Banks or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Grantor or its properties in the courts of any jurisdiction.

(b) Each Grantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 7.01. Nothing in this Agreement will affected the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.14. Termination. This Agreement and the Security Interest shall terminate when all the Obligations (other than wholly contingent indemnification obligations) then due and owing have been indefeasibly paid in full, the Lenders have no further commitment to lend, the L/C Exposure has been reduced to zero and the Issuing Banks have no further commitment to issue Letters of Credit under the Credit Agreement, at which time the Collateral Agent shall execute and deliver to the Grantors, at the Grantors' expense, all Uniform Commercial Code termination statements and similar documents which the Grantors shall reasonably request to evidence such termination. Any execution and delivery of termination statements or documents pursuant to this Section 7.14 shall be without recourse to or warranty by the Collateral Agent. A Grantor shall automatically be released from its obligations hereunder and the Security Interest in the Collateral of such Grantor shall be automatically released without further action in the event that all of the Equity Interests of such Grantor shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate

of the Borrower in accordance with the terms of the Credit Agreement; provided that the Required Lenders shall have consented to such sale, transfer or other disposition (to the extent required by the Credit Agreement) and the terms of such consent did not provide otherwise.

(b) Upon any sale or other transfer by any Grantor of any Collateral that is permitted under the Credit Agreement to any person that is not a Grantor, or, upon the effectiveness of any written consent to the release of the security granted hereby in any Collateral pursuant to Section 9.08(b) of the Credit Agreement, the security interest in such Collateral shall be automatically released.



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SECTION 7.15. Additional Grantors. Upon execution and delivery by the Collateral Agent and a Domestic Subsidiary of an instrument in the form of Annex 2 hereto, such Domestic Subsidiary shall become a Grantor hereunder with the same force and effect as if originally named as a Grantor herein. The execution and delivery of any such instrument shall not require the consent of any Grantor hereunder. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

FLOWSERVE CORPORATION,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Assistant Secretary

FLOWSERVE RED CORPORATION,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLOWSERVE FSD CORPORATION,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLOWSERVE FCD CORPORATION,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLOWSERVE INTERNATIONAL, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President



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FLOWSERVE MANAGEMENT COMPANY,

by: /s/ JOHN M. NANOS

---
Name: John M. Nanos
Title: Vice President

BW/IP-NEW MEXICO, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLOWSERVE INTERNATIONAL, LLC,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

DURAMETALLIC AUSTRALIA
HOLDING COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

INNOVATIVE VALVE TECHNOLOGIES,
INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

PLANT MAINTENANCE, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





VARCO VALVE, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

COLONIAL EQUIPMENT & SERVICE
CO., INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





CECORP, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

DIVT ACQUISITION-DELAWARE, LLC,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

DIVT SUBSIDIARY, LLC,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

SOUTHERN VALVE SERVICE, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

L.T. KOPPL INDUSTRIES, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

KOPPL COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





KOPPL INDUSTRIAL SYSTEMS, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

HARLEY INDUSTRIES, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

KOPPL COMPANY OF ARIZONA,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

SEELEY & JONES, INCORPORATED,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

GSV, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

IPSCO-FLORIDA, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





INTERNATIONAL PIPING SERVICES COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

CYPRESS INDUSTRIES, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

DALCO, LLC,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

PLANT SPECIALTIES, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

ENERGY MAINTENANCE, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





PREVENTIVE MAINTENANCE, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

PRODUCTION MACHINE INCORPORATED,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

ICE LIQUIDATING, INC.,

by: /s/ JOHN M. NANOS
---

Name: John M. Nanos
Title: Vice President

VALVE REPAIR OF SOUTH
CAROLINA, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

THE SAFE SEAL COMPANY., INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLICKINGER-BENICIA INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President





PUGET INVESTMENTS, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

STEAM SUPPLY & RUBBER CO., INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLICKINGER COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

BOYDEN INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

VALVE ACTUATION & REPAIR CO.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

INGERSOLL-DRESSER PUMP
COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

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IDP ALTERNATE ENERGY COMPANY,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

ENERGY HYDRO, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

PUMP INVESTMENTS, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

FLOWSERVE HOLDINGS, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

IPSCO HOLDING, INC.,

by: /s/ JOHN M. NANOS
---
Name: John M. Nanos
Title: Vice President

BANK OF AMERICA, N.A., as Collateral Agent,

by: /s/ THERESE FONTAINE
---
Name: Therese Fontaine
Title: Managing Director



SCHEDULE I TO THE
SECURITY AGREEMENT

GUARANTORS

A. FLOWSERVE

| SUBSIDIARY | JURISDICTION OF INCORPORATION |
|---|---|
| Flowserve RED Corporation | Delaware |
| Flowserve FSD Corporation | |
| Flowserve FCD Corporation | |
| Flowserve International, Inc. | |
| Flowserve Management Company (DE Business Trust) | |
| BW/IP-New Mexico, Inc. | |

| | |
|---|---|
| Flowserve International, LLC | |
| Flowserve Holdings, Inc. | |
| Durametallic Australia Holding Company | Michigan |

B. INVATEC

| SUBSIDIARY | JURISDICTION OF INCORPORATION |
|---|---|
| Innovative Valve Technologies, Inc. | Delaware |
| Plant Maintenance, Inc. | |
| Varco Valve, Inc. | |
| Colonial Equipment & Service Co., Inc. | |
| CECORP, Inc. | |
| DIVT Acquisition-Delaware, LLC | |
| DIVT Subsidiary, LLC<br>IPSCO Holding, Inc. | |
| Southern Valve Service, Inc. | Alabama |
| L.T. Koppl Industries, Inc. | California |
| Koppl Company | |
| Koppl Industrial Systems, Inc. | |
| Harley Industries, Inc. | |
| Koppl Company of Arizona | Arizona |
| Seeley & Jones, Incorporated | Connecticut |
| GSV, Inc. | Florida |
| IPSCO-Florida, Inc. | |
| International Piping Services Company | Illinois |
| Cypress Industries, Inc. | |



| SUBSIDIARY | JURISDICTION OF INCORPORATION |
|---|---|
| DALCO, LLC | Kentucky |
| Plant Specialties, Inc. | Louisiana |
| Energy Maintenance, Inc. | Missouri |

| | |
|---|---|
| Preventive Maintenance, Inc. | North Carolina |
| Production Machine Incorporated | Oklahoma |
| ICE Liquidating, Inc. | Pennsylvania |
| Valve Repair of South Carolina, Inc. | South Carolina |
| The Safe Seal Company, Inc. | Texas |
| Flickinger-Benicia Inc. | Washington |
| Puget Investments, Inc. | |
| Steam Supply & Rubber Co., Inc. | |
| Flickinger Company | |
| Boyden Inc. | West Virginia |
| Valve Actuation & Repair Co. | |

C. IDP

| SUBSIDIARY | JURISDICTION OF INCORPORATION |
|---|---|
| Ingersoll-Dresser Pump Company (DE Partnership) | Delaware |
| IDP Alternate Energy Company | |
| Energy Hydro, Inc. | |
| Pump Investments, Inc. | |



SCHEDULE II TO THE
SECURITY AGREEMENT

COPYRIGHTS

A. FLOWSERVE

1. U.S. COPYRIGHT REGISTRATIONS

NONE

2. PENDING U.S. COPYRIGHT APPLICATIONS FOR REGISTRATION

NONE

3. NON-U.S. COPYRIGHT REGISTRATIONS

NONE

4 NON-U.S. PENDING COPYRIGHT APPLICATIONS FOR REGISTRATIONS

NONE



B. INVATEC

1. U.S. COPYRIGHT REGISTRATIONS

NONE

2. PENDING U.S. COPYRIGHT APPLICATIONS FOR REGISTRATION

NONE

3. NON-U.S. COPYRIGHT REGISTRATIONS

NONE

4 NON-U.S. PENDING COPYRIGHT APPLICATIONS FOR REGISTRATIONS

NONE



C. IDP

1. U.S. COPYRIGHT REGISTRATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GUARANTOR | TITLE | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|
| Ingersoll Dresser Pump Company | CAMERON HYDRAULIC DATA BOOK | | |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |

2. PENDING U.S. COPYRIGHT APPLICATIONS FOR REGISTRATION

NONE

3. NON-U.S. COPYRIGHT REGISTRATIONS

NONE

4 NON-U.S. PENDING COPYRIGHT APPLICATIONS FOR REGISTRATIONS

NONE



SCHEDULE V TO THE
SECURITY AGREEMENT

TRADEMARKS

A. FLOWSERVE TRADEMARKS

1. U.S. TRADEMARK REGISTRATIONS

| GRANTOR | TRADEMARK | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|
| Flowserve FCD Corporation | ACCORD (STYLIZED) | 1597174 | 5/22/2000 |

| | | | |
|---|---|---|---|
| Flowserve FCD Corporation | AUTOMAX INC & DESIGN | 1517015 | 12/20/2008 |
| Flowserve FCD Corporation | CENTURA | 1721600 | 10/6/2002 |
| Flowserve FCD Corporation | CHANNELSTREAM | 1393912 | 5/20/2006 |
| Flowserve FCD Corporation | PHAROS | 1652259 | 7/30/2001 |
| Flowserve FCD Corporation | PHAZER | 1828775 | 3/2/2004 |
| Flowserve FCD Corporation | ULTRASWITCH | 1647324 | |
| Flowserve FCD Corporation | KAMMER (STYLIZED) | 1850586 | 8/23/2004 |
| Flowserve FCD Corporation | VALDISK | 1,135,629 | |
| Flowserve FCD Corporation | VALTEK INC. (w/design) | 895,854 | |
| Flowserve FCD Corporation | VALTEK MAXFLO | 2142246 | 3/10/2008 |
| Anchor Darling [Assigned to Flowserve Management Company] | ADAC | 1170933 | 9/29/2001 |
| Flowserve Management Company | BIG MAX | 1149600 | 3/31/2001 |
| Flowserve Management Company | BW SEALS | 1728892 | 11/3/2002 |
| Flowserve Management Company | BW/IP (STYLIZED) | 1548874 | 7/25/2009 |
| Flowserve Management Company | BYRON JACKSON | 378463 | 6/11/2000 |
| Flowserve Management Company | DURCO | 295561<br>432949<br>417872<br>418706 | 7/5/2002<br>9/28/2007<br>11/20/2005<br>1/8/2006 |
| Flowserve Management Company | DURCO-CAST | 0774446 | 8/4/2004 |
| Flowserve Management Company | DURCO-D | 743252<br>743264<br>743322<br>761525<br>761311<br>761329<br>761338<br>761630 | 1/8/2003<br>1/8/2003<br>1/8/2003<br>12/17/2003<br>12/10/2003<br>12/10/2003<br>12/10/2003<br>12/17/2003 |
| Flowserve Management Company | DURCOMETER | 1245145 | -- |
| Flowserve Management Company | DURCON | 772193<br>611024 | 6/30/2004<br>8/23/2005 |
| Flowserve Management Company | DURCOPUMP | 395550 | 6/2/2002 |
| Flowserve Management Company | FIVE STAR SEAL & DESIGN | 1291851 | 8/28/2004 |
| Flowserve Management Company | LIFESHIELD | 1857472 | 10/11/2004 |
| Flowserve Management Company | GASPAC | 1941730 | 12/12/2005 |
| Flowserve Management Company | PAC-SEAL | 2073563 | |



| GRANTOR | TRADEMARK | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|
| Flowserve Management Company | SLEEVELINE | 697997 | 5/24/2000 |
| Flowserve Management Company | T-LINE | 912253<br>892839 | 6/8/2001<br>6/16/2000 |
| Flowserve Management Company | UNITED CENTRIFUGAL | 1644974 | 5/21/2001 |
| Flowserve Management Company | WILSON-SNYDER | 551064 | 11/20/2001 |
| Flowserve Management Company | UPC | 213477803 | 2/3/2008 |
| Innovative Valve Technologies [Assigned to Flowserve Management Company] | PWR.SEAL TECHNOLOGY | 2283194 | 10/5/2009 |
| Innovative Valve Technologies [Assigned to Flowserve Management Company] | INNOVATIVE VALVE TECHNOLOGIES, INC. | 2304575 | 12/28/2009 |
| Innovative Valve Technologies [Assigned to Flowserve Management Company] | INVATEC | 2304574 | 12/28/2009 |
| Flowserve International, Inc. | BYRON JACKSON/UNITED | 2,034,059 | |
| Flowserve International, Inc. | FIVE STAR SEAL DESIGN (DOUBLE) | 1624849 | 11/27/2000 |
| Flowserve International, Inc. | FIVE STAR SEAL DESIGN (SINGLE) | 1674796 | 2/11/2002 |

| | | | |
|---|---|---|---|
| Flowserve FSD Corporation | DMC | 0979,376 | |
| Flowserve FSD Corporation | DURAFITE | 0902,609 | |
| Flowserve FSD Corporation | DURAFLON | 0 861,684 | |
| Flowserve FSD Corporation | DURA HOOKS | 0347,926 | |
| Flowserve FSD Corporation | DURA LAPPER | 0789,961 | |
| Flowserve FSD Corporation | DURAMETALLIC | 183,441<br>1,283,049 | |
| Flowserve FSD Corporation | DURA SEAL | 0319,472 | |
| Flowserve FSD Corporation | METAL FAB | 1,022,668<br>1,388,031 | |
| Flowserve Corporation | DURIRON | 0591017<br>0606594<br>0603774<br>0096259 | 6/15/2004<br>5/31/2005<br>3/29/2005<br>4/14/2004 |
| Flowserve Corporation | MAGNALERT | 1,808,367 | |
| Flowserve Corporaiton | QUADRA PRESS | 1,127,811 | |
| Flowserve Corporation | FLOWSERVE | 2333567<br>2286139<br>2261469<br>2261470<br>2333568 | 3/21/2010<br>10/12/2009<br>7/13/2009<br>7/13/2009<br>3/21/2010 |
| Flowserve Corporation | GUARDIAN | 1746297 | 1/12/2003 |
| The Safe Seal Company, Inc. | SAFE SEAL | 2194856 | 10/13/2008 |
| Flowserve RED Corporation | NONE | | |
| BW/IP - New Mexico, Inc. | NONE | | |
| Flowserve International, LLC | NONE | | |
| Durametallic Australia Holding Company | NONE | | |





A. FLOWSERVE TRADEMARKS

2. U.S. TRADEMARK APPLICATIONS

| GRANTOR | TRADEMARK | APPLICATION NUMBER | FILING DATE |
|---|---|---|---|
| Flowserve FCD Corporation | VALTEK | Pending<br>Pending | -- |
| Flowserve Management Company | NONE | | |
| Flowserve International, Inc. | NONE | | |
| Flowserve FSD Corporation | NONE | | |
| Flowserve Corporation | FLOWSERVE | 75-312447 | |
| Flowserve RED Corporation | NONE | | |
| BW/IP - New Mexico, Inc. | NONE | | |
| Flowserve International, LLC | NONE | | |
| Durametallic Australia Holding Company | NONE | | |

## A. FLOWSERVE TRADEMARKS

### 3. NON-U.S. TRADEMARK REGISTRATIONS

| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Anchor Darling [Assigned to Flowserve Management Company] | ANCHOR DARLING | France | 1559256 | 12/20/1979 |
| Anchor Darling [Assigned to Flowserve Management Company] | ANCHOR / DARLING | UK | B1125895 | 12/19/1979 |
| | | Germany | 1010076 | 12/22/1979 |
| | | Israel | 49248 | 12/26/1979 |
| | | Italy | 381394 | 1/10/1980 |
| | | South Korea | 71163 | 7/31/1980 |
| | | Taiwan | 134160 | 6/1/1990 |
| Anchor Darling [Assigned to Flowserve Management Company] | ANCHOR / DARLING (DEVICE) | Benelux | 363296 | 12/18/1979 |
| Flowserve Management Company | BW SEALS | Australia | 611424 | 9/14/1993 |
| | | Benelux | 470167 | 10/25/1989 |
| | | Canada | 443166 | 5/26/1995 |
| | | Colombia | 179838 | 7/12/1993 |
| | | Denmark | 00161/1992 | 1/17/1992 |
| | | France | 1718690 | 7/28/1989 |
| | | Iran | 71748 | 12/12/1993 |
| | | Italy | 575671 | 10/1/1992 |
| | | Mexico | 386883 | 6/1/1990 |
| | | Philippines | 58015 | 5/12/1994 |
| | | Saudi Arabia | 255/91 | 9/23/1990 |
| | | Singapore | B4733/92 | 6/24/1992 |
| | | Spain | 1516478 | 11/5/1991 |
| | | Taiwan | 733726 | 10/31/1996 |
| | | UK | 1403594 | 5/11/1989 |
| Flowserve Management Company | BW SEALS LOGO | Argentina | 1600234 | 5/17/1996 |
| Flowserve Management Company | BW/IP | Venezuela | 153127 | 2/16/1994 |
| | | Venezuela | 153128 | 2/16/1994 |
| Flowserve Management Company | BW/IP (DESIGN) | Venezuela | 153126 | 2/16/1994 |
| Flowserve Management Company | BW/IP (DEVICE) | Spain | 1307428 | 6/5/1990 |





| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | BW/IP (STYLIZED) | Thailand | 46469 | 7/2/1996 |
| | | Argentina | 1332325 | 2/15/1989 |
| | | Benelux | 483051 | 2/22/1989 |
| | | Canada | TMA404402 | 11/6/1992 |
| | | France | 1533629 | 5/30/1989 |
| | | Germany | 1182902 | 12/17/1991 |
| | | Indonesia | 280410 | 10/2/1992 |
| | | Italy | 575749 | 10/1/1992 |
| | | Japan | 2448338 | 8/31/1992 |
| | | Saudi Arabia | 222/46 | 7/29/1990 |
| | | Singapore | B4732/92 | 6/24/1992 |
| | | Switzerland | 370960 | 2/23/1989 |
| | | Philippines | 55437 | 6/21/1993 |
| | | UK | 1403598 | 10/27/1989 |
| | | Saudi Arabia | 222/47 | 7/29/1990 |
| | | Thailand | 44725 | 8/2/1995 |
| | | Iran | 69211 | 10/17/1992 |
| Flowserve Management Company | BW/IP Design | Venezuela | 153125 | 2/16/1994 |
| Flowserve Management Company | BW/IP DESIGN | Mexico | 381137 | 8/16/1990 |
| | | Mexico | 381138 | 8/16/1990 |

| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | BYRON JACKSON | Argentina | 1592107 | 1933 |
| | | Australia | B273316 | 10/23/1970 |
| | | Australia | B243395 | 10/23/1970 |
| | | Australia | B243398 | 1970 |
| | | Austria | 56302 | 12/17/1965 |
| | | Benelux | 103007 | 12/24/1971 |
| | | Bolivia | 32922 | 2/4/1977 |
| | | Brazil | 811047318 | 1/8/1985 |
| | | Bulgaria | 9174 | 10/30/1973 |
| | | Canada | 2/997 | 2/2/1933 |
| | | Chile | 417153 | 11/28/1933 |
| | | China | 161183 | 8/15/1982 |
| | | Costa Rica | 64298 | 1/17/1985 |
| | | Czech Republic | 162135 | 1974 |
| | | Czech Republic | 162136 | 3/13/1974 |
| | | Denmark | 1137 | 4/30/1966 |
| | | France | 1336929 | 1/3/1986 |
| | | Germany | 823449 | 8/29/1966 |
| | | UK | 2006989 | 1/6/1995 |
| | | Greece | 33890 | 8/5/1965 |
| | | Hungary | 116847 | 11/20/1973 |
| | | Indonesia | 403517 | 11/6/1997 |
| | | Iran | 56125 | 2/23/1983 |
| | | Italy | 568658 | 1992 |
| | | Italy | 714612 | 6/18/1997 |
| | | Japan | 718894 | 9/6/1966 |
| | | Japan | 490789 | 10/31/1956 |
| | | South Korea | 10159 | 8/12/1965 |
| | | Kuwait | 14439 | 3/26/1993 |
| | | Malaysia | M/B73923 | 1/6/1977 |
| | | Malaysia | M/B73924 | 1/6/1977 |
| | | Mexico | 45819 | 4/15/1943 |
| | | Panama | 032840 | 10/14/1983 |
| | | Paraguay | 193760 | 7/1/1976 |
| | | Peru | 18972 | 11/22/1963 |
| | | Philippines | 35460 | 3/5/1986 |
| | | Poland | 52491 | 10/29/1974 |
| | | Qatar | 3471 | 4/19/1983 |
| | | Saudi Arabia | 113/31 | 3/25/1985 |
| | | Slovak Republic | 162135 | 3/13/1974 |
| | | South Africa | B65/4411 | 11/1/1965 |
| | | Spain | 482836 | 9/5/1967 |
| | | Spain | 482838 | 1/24/1967 |
| | | Spain | 482837 | 5/7/1969 |
| | | Switzerland | 340713 | 7/21/1965 |
| | | Taiwan | 90605 | 7/1/1977 |
| | | Taiwan | 400009 | 1988 |
| | | Thailand | 55986 | 1/14/1977 |
| | | Russian Fed. | 50609 | 9/25/1973 |
| | | Uruguay | 291852 | 2/26/1977 |
| | | Venezuela | 21242 | 8/13/1949 |
| | | Algeria | 40160 | 5/24/1978 |





| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | Cuba | 96258 | 4/8/1958 |
| | | Equador | 3162-9 | 7/12/1983 |
| | | Romania | 1725 | 8/21/1933 |
| | | Turkey | 110427 | 12/2/1968 |
| | | East Germany | 640369 | 8/21/1974 |
| Flowserve Management Company | BYRON JACKSON | Taiwan | 00880863 | 1/31/2000 |
| Flowserve Management Company | BYRON JACKSON | Mexico | 45824 | 4/15/1943 |
| | | Slovak Republic | 162136 | 3/13/1974 |
| Flowserve Management Company | BYRON JACKSON (in katakana) | Japan | 2076780 | 9/30/1988 |
| Flowserve Management Company | CHEMSTAR | France | 1519103 | 3/14/1989 |
| | | Germany | 1182630 | 11/29/1991 |
| | | UK | 1372876 | 2/14/1989 |
| Flowserve Management Company | CHLORIMET | France | RN 1492413 | 1968 |

| | | | | |
|---|---|---|---|---|
| | | Italy | RN 0550867 | 1968 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | DURAMETALLIC | Argentina | RN 621597 | 1969 |
| | | Argentina | RN 1373154 | 1990 |
| | | Australia | RN A208222 | 1974 |
| | | Bahrain | RN 9654 | 1985 |
| | | Benelux | RN 033985 | 1971 |
| | | Brazil | RN 1232/0602.251 | 1974 |
| | | Canada | RN 241/52108 | 1931 |
| | | Canada | RN 334048 | 1987 |
| | | Chile | RN 446515 | 1995 |
| | | Columbia | RN 173759 | 1995 |
| | | Czechoslovakia | RN 176969 | 1992 |
| | | Ecuador | RN 4752 | 1995 |
| | | France | RN 958262 | 1976 |
| | | Germany | RN 750438 | 1958 |
| | | Germany | RN 869521 | 1969 |
| | | Great Britain | RN 906510 | 1967 |
| | | Hungary | RN 136020 | 1992 |
| | | India | RN 241039 | 1967 |
| | | Indonesia | RN 116961 | 1977 |
| | | Iran | RN 33231 | 1969 |
| | | Israel | RN 36261 | 1972 |
| | | Italy | RN 218996 | 1967 |
| | | Japan | RN 513658 | 1958 |
| | | Kuwait | RN 6808 | 1974 |
| | | Malaysia | RN M/093116 | 1981 |
| | | Mexico | RN 39918 | 1939 |
| | | Mexico | RN 156614 | 1969 |
| | | New Zealand | RN 131582 | 1980 |
| | | Nigeria | RN 23849 | 1973 |
| | | Paraguay | RN 185241 | 1996 |
| | | Peru | RN 13454 | 1995 |
| | | Philippines | RN 22830 | 1976 |
| | | Poland | RN 82720 | 1992 |
| | | Saudi Arabia | RN 94/22 | 1980 |
| | | Singapore | RN 61098 | 1974 |
| | | Slovakia | RN 173000 | 1992 |
| | | South Africa | RN 66/5169 | 1966 |
| | | South Africa | RN 67/1391 | 1967 |
| | | South Korea | RN 129459 | 1986 |
| | | Spain | RN 603129 | 1972 |
| | | Sweden | RN 120581 | 1967 |
| | | Taiwan | RN 328389 | 1986 |
| | | Thailand | RN 86654 | 1981 |
| | | Turkey | RN 46211 | 1972 |
| | | Uruguay | RN 272.756 | 1996 |
| | | Venezuela | RN 11934 | 1958 |
| | | Venezuela | RN 22.662-D | 1987 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | DURA SEAL | Argentina | RN 527070 | 1964 |
| | | Australia | RN A166362 | 1961 |
| | | Bahrain | RN 9655 | 1985 |
| | | Benelux | RN 033986 | 1971 |
| | | Brazil | RN 384364 | 1968 |
| | | Canada | RN 9678 | 1937 |
| | | China | RN 780617 | 1995 |
| | | Czec. Republic | RN 178691 | 1992 |
| | | Ecuador | RN 4759 | 1995 |
| | | France | RN 47714 | 1939 |
| | | Germany | RN 909544 | 1966 |
| | | Great Britian | RN 609037 | 1940 |
| | | Hungary | RN 136019 | 1992 |
| | | India | RN 210230 | 1962 |
| | | Indonesia | RN 120468 | 1977 |

| | | | | |
|---|---|---|---|---|
| | | Iran | RN 38061 | 1972 |
| | | Israel | RN 36260 | 1972 |
| | | Italy | RN 218995 | 1967 |
| | | Japan | RN 557204 | 1960 |
| | | Kuwait | RN 6807 | 1974 |
| | | Mexico | RN 39919 | 1939 |
| | | New Zealand | RN B131581 | 1980 |
| | | Nigeria | RN 27231 | 1973 |
| | | Paraguay | RN 181.028 | 1995 |
| | | Peru | RN 13453 | 1995 |
| | | Phillipines | RN 23124 | 1976 |
| | | Poland | RN 82721 | 1992 |
| | | Saudi Arabia | RN 92/23 | 1980 |
| | | Singapore | RN 61099 | 1974 |
| | | Slovakia | RN 175122 | 1992 |
| | | South Africa | RN 63/0686 | 1963 |
| | | South Korea | RN 129458 | 1986 |
| | | Taiwan | RN 328388 | 1986 |
| | | Thailand | RN 77295 | 1981 |
| | | Turkey | RN 46426 | 1972 |
| | | Venezuela | RN 11933 | 1939 |
| Flowserve Management Company | DURCO | China | 358021 | 8/20/1989 |
| | | France | 1483334 | 9/9/1968 |
| | | India | 418546 | 3/5/1984 |
| | | India | 418547 | 3/5/1984 |
| | | Italy | 547399 | 9/9/1968 |
| | | Mexico | 90568 | 8/13/1957 |
| | | Mexico | 90569 | 10/19/1957 |
| | | Taiwan | 278199 | 5/16/1985 |
| | | South Korea | 104174 | 8/10/1984 |
| | | UK | 782884 | 10/16/1958 |
| Flowserve Management Company | DURCO (IN CHINESE) | China | 358019 | 8/20/1989 |
| Flowserve Management Company | DURCO-CAST | Canada | 136531 | 7/10/1964 |





| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | DURCO-D | Argentina | 1615654 | 9/16/1996 |
| | | Argentina | 156695 | 1/2/1996 |
| | | Argentina | 113245/8 | 10/28/1963 |
| | | Australia | A172743 | 3/22/1962 |
| | | Australia | A172744 | 3/22/1962 |
| | | Benelux | 40702 | 5/28/1971 |
| | | Brazil | 750152842 | 2/16/1982 |
| | | Brazil | 004067282 | 9/2/1970 |
| | | Brazil | 3693198 | 3/11/1978 |
| | | Canada | 128754 | 11/6/1962 |
| | | Chile | 330102 | 4/28/1988 |
| | | France | 1389966 | 1/19/1987 |
| | | Germany | 783072 | 3/7/1963 |
| | | India | 215280 | 5/1/1963 |
| | | International Reg | 368605 | 3/25/1970 |
| | | Italy | 413319 | 3/6/1962 |
| | | Mexico | 110692 | 3/20/1962 |
| | | Mexico | 110691 | 3/20/1962 |
| | | Peru | 10765 | 3/16/1972 |
| | | Peru | 10548 | 3/16/1972 |
| | | Peru | 10766 | 3/16/1972 |
| | | South Africa | 62/0682 | 3/5/1962 |
| | | South Korea | 165048 | 12/21/1988 |
| | | Venezuela | 44835 | 4/8/1963 |
| | | Venezuela | 44836 | 4/8/1963 |
| | | Venezuela | 44837 | 4/8/1963 |
| | | Venezuela | 64187 | 3/26/1971 |
| | | UK | 833681 | 4/25/1962 |
| | | UK | 846573 | 3/18/1963 |
| | | UK | 850693 | 6/21/1963 |
| | | UK | 950481 | 11/3/1969 |
| | | UK | 833682 | 4/25/1962 |
| | | UK | 833683 | 4/25/1962 |
| | | UK | 846574 | 3/18/1963 |
| Flowserve Management Company | DURCO-D (IN CHINESE) | China | 258472 | 8/10/1986 |
| | | China | 259910 | 3/20/1996 |
| Flowserve Management Company | DURCOMETER | Canada | TMA288833 | 1984 |
| Flowserve Management Company | DURCON | Canada | 103755 | 7/6/1956 |
| | | UK | 744126 | 7/6/1955 |
| Flowserve Management Company | DURCOPUMP | Canada | UCA15306 | 7/18/1941 |
| | | UK | 782885 | 10/16/1958 |

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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | DURICHLOR | UK | 943818 | 6/9/1969 |
| | | UK | 943819 | 6/9/1969 |
| | | International Reg | 368601 | 3/25/1970 |
| | | Argentina | 1315522 | 1988 |
| | | Argentina | 1315523 | 1988 |
| | | Argentina | 1315526 | 1988 |
| | | Argentina | 1315525 | 1988 |
| | | Argentina | 1315521 | 1988 |
| | | France | 1483333 | 1968 |
| | | Italy | 547398 | 1968 |
| Flowserve Management Company | DURIMET | Benelux | 33460 | 5/19/1971 |
| | | South Korea | 107674 | 11/29/1984 |
| | | France | 1483452 | 1968 |
| | | Italy | 0550084 | 1968 |
| Flowserve Management Company | DURIRON | Argentina | 1315519 | 10/27/1988 |
| | | Argentina | 1315520 | 10/27/1988 |
| | | Argentina | 1315518 | 10/27/1988 |
| | | Benelux | 33452 | 5/19/1971 |
| | | Brazil | 002468808 | 2/3/1981 |
| | | Brazil | 006075851 | 4/25/1985 |
| | | Canada | TMDA29960 | 12/1/1921 |
| | | Chile | 326316 | 4/25/1957 |
| | | Chile | 357611 | 4/17/1970 |
| | | France | 1423120 | 6/18/1952 |
| | | India | 418545 | 3/5/1984 |
| | | International Reg | 368604 | 3/25/1970 |
| | | Italy | 339499 | 12/21/1956 |
| | | Mexico | 20277 | 12/14/1921 |
| | | South Africa | 84/6546 | 7/24/1984 |
| | | South Africa | 84/6547 | 7/24/1984 |
| | | South Korea | 107833 | 12/6/1984 |
| | | Spain | 91228 | 9/22/1932 |
| | | Spain | 86177 | 7/7/1931 |
| | | Spain | 91227 | 2/14/1933 |
| | | Taiwan | 268088 | 12/16/1984 |
| | | UK | 421025 | 11/29/1921 |
| Flowserve Management Company | DURIRON (IN CHINESE) | China | 258471 | 8/10/1986 |
| | | China | 259911 | 8/20/1986 |
| | | China | 358018 | 8/20/1989 |
| Flowserve Management Company | ENZINGER | Canada | RN 107692 | 1957 |
| Flowserve Management Company | FIVE STAR SEAL | Canada | TMA373450 | 9/14/1990 |
| Flowserve Management Company | FIVE STAR SEAL DESIGN (DOUBLE) | Canada | TMA370794 | 7/13/1990 |
| Flowserve Management Company | FIVE STAR SEAL DESIGN (SINGLE) | Canada | TMA371345 | 7/27/1990 |
| Flowserve Management Company | GASPAC | Germany | 396344321 | 10/15/1996 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Management Company | GASPAC | Canada | 467701 | 12/16/1996 |
| | | UK | 2018793 | 4/26/1995 |
| | | Malaysia | 95/13380 | 12/8/1995 |
| | | Singapore | 11912/95 | |
| Flowserve Management Company | HELITORK | Canada | RN282225 | 1983 |
| | | Italy | RN 413372 | 1986 |
| Flowserve Management Company | LIFECHAMBER | Canada | RN TMA385799 | 1991 |

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|---|---|---|---|---|
| | | Canada | RN TMA398208 | 1992 |
| Flowserve Management Company | LIFESHIELD | Canada | TMA425667 | 1994 |
| | | Canada | TMA425661 | 1994 |
| Flowserve Management Company | PETCH | Indonesia | RN 268397 | 1991 |
| Flowserve Management Company | SLEEVELINE | Benelux | RN 33459 | 1971 |
| | | Canada | RN 171469 | 1970 |
| | | France | RN 1483454 | 1968 |
| | | Italy | RN 0550082 | 1968 |
| Flowserve Management Company | T-LINE | Canada | RN 173563 | 1970 |
| | | France | RN 1483455 | 1978 |
| | | Italy | RN 0550083 | 1968 |
| Flowserve Management Company | UNITED | Australia | RN A158675 | 1960 |
| | | Benelux | RN 490849 | 1991 |
| | | France | RN 1636285 | 1991 |
| | | Iran | RN 73859 | 1994 |
| | | Italy | RN 611343 | 1993 |
| | | Mexico | RN 539198 | 1996 |
| | | Thailand | RN TM42107 | 1995 |
| Flowserve Management Company | UNITED CENTRIFUGAL | Argentina | 1507406 | 2/28/1994 |
| Flowserve Management Company | UNITED CENTRIFUGAL | Mexico | 539199 | 11/6/1991 |
| Flowserve Management Company | UNITED PUMPS | Canada | TMA409344 | 3/12/1993 |
| Flowserve Management Company | WILSON-SNYDER | Mexico | 514129 | 11/16/1995 |
| | | India | 270853B | 8/13/1973 |
| Flowserve Management Company | WILSON-SNYDER | China | 244200 | 2/27/1996 |
| Flowserve Management Company | UPC | Canada | TMA452634 | 12/29/1995 |



| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve Corporation | VALTEK | UK | 1063895 | 6/4/1976 |
| | | UK | 1063896 | 6/4/1976 |
| | | UK | 1063897 | 6/4/1976 |
| | | Australia | 600966 | 11/25/1996 |
| | | Brazil | 817548130 | 2/25/1998 |
| | | China | 1177794 | 5/21/1998 |
| | | Denmark | 2020/74 | 6/28/1974 |
| | | France | 93477871 | 7/26/1993 |
| | | Germany | 20262319 | 4/15/1994 |
| | | Italy | 694721 | 7/2/1977 |
| | | Japan | 1407928 | 2/29/1980 |
| | | Norway | 89814 | 12/14/1973 |
| | | Sweden | 146507 | 3/22/1974 |
| Flowserve Corporation | VALTEK | UK | 1063894 | 6/4/1976 |
| Flowserve Corporation | DURCO-D | Argentina | 1615655 | 9/16/1996 |
| Flowserve Corporation | FLOWSERVE | Argentina | 1.721.932 | 2/16/1999 |
| | | Argentina | 1.721.931 | 2/16/1999 |
| | | Australia | 750973 | 7/3/1998 |
| | | Canada | 520991 | 1/4/2000 |
| | | Chile | 519.695 | 8/19/1998 |
| | | Chile | 519.696 | 8/19/1998 |
| | | China | 1279596 | 5/28/1999 |
| | | China | 1293761 | 7/14/1999 |
| | | Czech Republic | 217863 | 5/27/1999 |
| | | European Com. | 707901 | 12/16/1999 |
| | | Hungary | 156813 | 6/21/1999 |
| | | Indonesia | 432025 | 2/10/1998 |
| | | Indonesia | 432026 | 2/10/1998 |
| | | Mexico | 579538 | 6/29/1998 |
| | | New Zealand | 286127 | 6/20/1997 |
| | | New Zealand | 286128 | 6/17/1998 |
| | | Norway | 195411 | 1/21/1999 |
| | | Peru | 46832 | 6/24/1998 |
| | | Peru | 46833 | 6/24/1998 |
| | | Singapore | T97/15408H | 6/20/1997 |
| | | Slovenia | Z9870142 | 10/5/1998 |
| | | South Korea | 443203 | 3/4/1999 |
| | | South Korea | 40-448007 | 5/18/1999 |
| | | Switzerland | 456623 | 10/12/1998 |
| Flowserve FCD Corporation | AUTOMAX | Benelux | 542479 | 9/1/1994 |
| | | Germany | 2101813 | 11/21/1996 |
| | | UK | 1555542 | 12/3/1993 |
| | | UK | 1555501 | 12/3/1993 |
| | | Saudi Arabia | 316/55 | 8/8/1994 |

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|---|---|---|---|---|
| | | Saudi Arabia | 316/56 | 8/8/1994 |
| | | Singapore | S/9706/93 | 12/8/1993 |
| Flowserve FCD Corporation | AUTOMAX (STYLIZED) | Australia | 617760 | 12/3/1993 |
| | | Australia | 617761 | 12/3/1993 |
| | | Italy | 00678836 | 5/17/1996 |





| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Flowserve FCD Corporation | AUTOMAX INC & DESIGN | France | 93/495315 | 12/6/1993 |
| | | South Korea | 316236 | 6/26/1995 |
| | | South Korea | 307062 | 1/25/1995 |
| | | South Africa | 93/11482 | 12/3/1993 |
| | | South Africa | 93/11483 | 12/3/1993 |
| | | Spain | 1793584 | 12/9/1993 |
| | | Spain | 1793585 | 12/9/1993 |
| Flowserve FCD Corporation | KAMMER | Australia | A600968 | 9/19/1994 |
| | | Brazil | 817553762 | 12/19/1995 |
| | | France | 93477872 | 7/26/1993 |
| | | Germany | 2062764 | 4/20/1994 |
| | | UK | 1527113 | 2/25/1993 |
| Flowserve FSD Corporation | DURA | Italy | RN 175446 | 1961 |
| Flowserve FSD Corporation | DURAFITE | Canada | RN 179128 | 1971 |
| | | Germany | RN 893562 | 1970 |
| Flowserve FSD Corporation | DURAFLON | Argentina | RN 1073602 | 1984 |
| Flowserve FSD Corporation | DURA HOOKS | Canada | RN 9928 | 1937 |
| Flowserve FSD Corporation | DURA LAPPER | Canada | RN 141841 | 1965 |
| Flowserve Corporation | QUADRA PRESS | Canada | RN 254349 | 1981 |
| Flowserve RED Corporation | NONE | | | |
| Flowserve FSD Corporation | NONE | | | |
| Flowserve International, Inc. | NONE | | | |
| BW/IP - New Mexico, Inc. | NONE | | | |
| Flowserve International, LLC | NONE | | | |
| Durametallic Australia Holding Company | NONE | | | |
| Flowserve Finance B.V. | NONE | | | |
| Flowserve International Limited | NONE | | | |





## A. FLOWSERVE TRADEMARKS

## 4. NON-U.S. TRADEMARK APPLICATIONS

| GRANTOR | TRADEMARK | COUNTRY | APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Flowserve Management Company | BW SEALS | Malaysia | Pending | -- |
| Flowserve Management Company | BW SEALS | Venezuela | 666190 | 8/6/1999 |
| Flowserve Management Company | BW/IP DESIGN | Malaysia | Pending | -- |
| | | Malaysia | Pending | -- |
| Flowserve Corporation | VALTEK | India | Pending | -- |
| Flowserve Corporation | FLOWSERVE & DESIGN | Brazil | Published | -- |
| | | Brazil | Published | -- |
| Flowserve Corporation | FLOWSERVE | Brazil | Published | -- |

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|---|---|---|---|---|
| | | Brazil | Published | -- |
| | | Croatia | Pending | -- |
| | | India | Pending | -- |
| | | India | Pending | -- |
| | | Japan | Published | -- |
| | | Malaysia | Pending | -- |
| | | Malaysia | Pending | -- |
| | | Mexico | Pending | -- |
| | | Morocco | Pending | -- |
| | | Saudi Arabia | Pending | -- |
| | | Saudi Arabia | Pending | -- |
| | | Singapore | Published | -- |
| | | Slovak Republic | Pending | -- |
| | | Slovak Republic | Pending | -- |
| | | South Africa | Pending | -- |
| | | South Africa | Pending | -- |
| | | Venezuela | Published | -- |
| | | Venezuela | Published | -- |
| | | Russian Fed | Pending | -- |
| Flowserve FCD Corporation | AUTOMAX | India | Pending | -- |
| | | India | Pending | -- |
| | | Singapore | Pending | -- |
| Flowserve RED Corporation | NONE | | | |
| Flowserve FSD Corporation | NONE | | | |
| Flowserve International, Inc. | NONE | | | |
| BW/IP - New Mexico, Inc. | NONE | | | |
| Flowserve International, LLC | NONE | | | |
| Durametallic Australia Holding Company | NONE | | | |
| Flowserve Finance B.V. | NONE | | | |
| Flowserve International Limited | NONE | | | |



## B. INVATEC TRADEMARKS

### 1. U.S. TRADEMARK REGISTRATIONS

| GRANTOR | TRADEMARK | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|
| Innovative Valve Technologies, Inc. | INNOVATIVE VALVE TECHNOLOGIES, INC. | 2304575 | 12/28/99 |
| Innovative Valve Technologies, Inc. | INVATEC | 2304574 | 12/28/99 |
| Innovative Valve Technologies, Inc. | PWR. SEAL TECHNOLOGY | 2,283,194 | 10/15/99 |
| The Safe Seal Company, Inc. | SAFE SEAL & design | 2,194,856 | 10/13/98 |
| IPSCO Holding, Inc. | IPSCO | 0753197 | 7/23/63 |
| Plant Maintenance | NONE | | |
| Varco Valve, Inc. | NONE | | |
| Colonial Equipment & Service Co., Inc. | NONE | | |
| CECORP, Inc. | NONE | | |
| DIVT Acquisition-Delaware, LLC | NONE | | |
| DIVT Subsidiary, LLC | NONE | | |
| Southern Valve Service | NONE | | |
| L.T. Koppl Industries | NONE | | |
| Koppl Company | NONE | | |

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|---|---|
| Koppl Industrial Systems, Inc. | NONE |
| Harley Industries, Inc. | NONE |
| Koppl Company of Arizona | NONE |
| Seeley & Jones, Incorporated | NONE |
| GSV, Inc. | NONE |
| IPSCO-Florida, Inc. | NONE |
| International Piping Services Company | NONE |
| Cypress Industries, Inc. | NONE |
| DALCO, LLC | NONE |
| Plant Specialties, Inc. | NONE |
| Energy Maintenance, Inc. | NONE |
| Preventive Maintenance, Inc. | NONE |
| Production Machine Incorporated | NONE |
| ICE Liquidating, Inc. | NONE |
| Valve Repair of South Carolina, Inc. | NONE |
| Flickinger-Benicia Inc. | NONE |
| Puget Investments, Inc. | NONE |
| Steam Line Supply & Rubber Co., Inc. | NONE |
| Flickinger Company | NONE |
| Boyden Inc. | NONE |
| Valve Actuation & Repair Co. | NONE |





B. INVATEC TRADEMARKS

2. U.S. TRADEMARK APPLICATIONS

NONE

3. NON-U.S. TRADEMARK REGISTRATIONS

NONE

4. NON-U.S. TRADEMARK APPLICATIONS

NONE





C. IDP TRADEMARKS

1. U.S. TRADEMARK REGISTRATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | TRADEMARK | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|
| Ingersoll-Dresser Pump Company | AKTIV-RUDER | 0695564 | 4/5/1960 |
| Ingersoll-Dresser Pump Company | BRUTE JR | 1778681 | 6/29/1993 |
| Ingersoll-Dresser Pump Company | CHEMLINER | 0973917 | 11/27/1973 |
| Ingersoll-Dresser Pump Company | CLEAN-LOCK | 1710041 | 8/25/1992 |
| Ingersoll-Dresser Pump Company | FAST RESPONSE CENTER | 1121582 | 7/3/1979 |
| Ingersoll-Dresser Pump Company | GEAREX (STYLIZED) | 0585955 | 2/23/1954 |
| Ingersoll-Dresser Pump Company | HYDREX | 0606355 | 5/24/1955 |
| Ingersoll-Dresser Pump Company | IDP LOGO | 1848852 | 8/9/1994 |
| Ingersoll-Dressner Pump Company | P & DESIGN | 0622620 | 3/6/1956 |
| Ingersoll-Dresser Pump Company | PACIFIC | 0591926 | 6/29/1954 |
| Ingersoll-Dresser Pump Company | PLEUGER | 2045357 | 3/18/1997 |
| Ingersoll-Dresser Pump Company | PUMPTRAC & DESIGN | 2013429 | 11/5/1996 |
| Ingersoll-Dresser Pump Company | SCIENCO | 1659448 | 10/8/1991 |
| Ingersoll-Dresser Pump Company | SIER-BATH | 0741577 | 12/4/1962 |
| Ingersoll-Dresser Pump Company | WESTERN LAND ROLLER | 1996129 | 8/20/1996 |
| Ingersoll-Dresser Pump Company | Worthington | 0641707 | 2/19/1957 |
| Ingersoll-Dresser Pump | WORTHINGTON<br>N & W | 0945715<br>0692784 | 10/24/1972<br>2/9/1960 |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |

C. IDP TRADEMARKS

2. U.S. TRADEMARK APPLICATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | TRADEMARK | APPLICATION NUMBER | FILING DATE |
|---|---|---|---|
| Ingersoll-Dresser Pump Company | X-CAVALLOY | 75707286 | 5/17/1999 |
| Ingersoll-Dresser Pump Company | BARBARIAN | 75676712 | 4/7/1999 |
| Ingersoll-Dresser Pump Company | DESIGN (ILLUSTRATION OF BARBARIAN) | PENDING | |
| Ingersoll-Dresser Pump Company | PROS+ | 75655861 | 3/8/1999 |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |



C. IDP TRADEMARKS

3. NON-U.S. TRADEMARK REGISTRATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | AKTIV-RUDER | Benelux | R237252 | -- |
| | | France | R237252 | -- |
| | | Germany | 664696 | 9/24/1951 |
| | | Intern'l Design | R237252 | 11/21/1960 |
| | | Spain | R237252 | -- |
| Ingersoll-Dresser Pump Company | ALDRICH | Canada | TMDA 39314 | -- |
| Ingersoll-Dresser Pump Company | CAMERON | Canada | 121/28041 | 2/19/1986 |
| Ingersoll-Dresser Pump Company | CLEAN-LOCK | Canada | TMA392819 | 1/10/1992 |
| | | | TMA450179 | 11/17/1995 |
| Ingersoll-Dresser Pump Company | GEAREX | Benelux | 384827 | 9/28/1982 |
| | | Canada | 132237 | 8/9/1963 |
| Ingersoll-Dresser Pump Company | HYDREX | Benelux | 384828 | 9/28/1982 |
| | | Canada | 134070 | 1/3/1964 |

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|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | IDP INGERSOLL-DRESSER PUMPS | Indonesia | 365914 | 7/6/1995 |
| | | Indonesia | 370229 | 7/6/1995 |
| | | Indonesia | 373167 | 7/6/1995 |
| Ingersoll-Dresser Pump Company | IDP LOGO | Algeria | 049894 | 11/29/195 |
| | | Argentina | 1506140 | 2/28/1994 |
| | | Argentina | 1506141 | 2/28/1994 |
| | | Australia | 593536 | 1/5/1993 |
| | | Australia | 593538 | 1/5/1993 |
| | | Australia | 659118 | 1/5/1993 |
| | | Austria | 147697 | 6/23/1993 |
| | | Benelux | 528270 | 1/15/1993 |
| | | Brazil | 817240764 | 1/10/1995 |
| | | Brazil | 817240772 | 5/23/1995 |
| | | Canada | TMA427902 | 5/27/1994 |
| | | China | 798459 | 12/14/1995 |
| | | China | 822508 | 3/14/1996 |
| | | China | 799915 | 12/14/1995 |
| | | Chile | 453959 | 12/11/1995 |
| | | Chile | 467412 | 9/9/1996 |
| | | Colombia | 172195 | 1/26/1995 |
| | | Colombia | 171406 | 1/20/1995 |
| | | Costa Rica | 86750 | 4/25/1994 |
| | | Costa Rica | 84221 | 10/14/1993 |
| | | Denmark | VR081491995 | 12/1/1995 |
| | | Ecuador | 1209-97 | 4/28/1997 |
| | | Ecuador | 550-97 | 4/28/1997 |
| | | Ecuador | 551-97 | 4/28/1997 |
| | | Finland | 143741 | 4/22/1996 |
| | | France | 93451897 | 1/22/1993 |
| | | Germany | 2075241 | 1/8/1993 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | Greece | 124281 | 5/10/1995 |
| | | Hong Kong | B04012/1997 | 6/8/1995 |
| | | Hong Kong | B09594/1997 | 6/8/1995 |
| | | Hong Kong | B09593/1997 | 6/8/1995 |
| | | Hungary | 147483 | 9/14/1995 |
| | | Iran | 79008 | 4/23/1996 |
| | | Ireland, Rep. of | B1666568 | 4/25/1995 |
| | | Ireland, Rep. of | 202043 | 7/1/1996 |
| | | Israel | 98344 | 4/30/1995 |
| | | Israel | 98345 | 4/30/1995 |
| | | Israel | 98346 | 4/30/1995 |
| | | Italy | 666822 | 1/26/1993 |
| | | Japan | 3225117 | 11/29/1996 |
| | | Japan | 3265253 | 2/24/1997 |
| | | Jordan | 9172 | 4/21/1996 |
| | | Jordan | 9171 | 4/2/1996 |
| | | Korea, South | 330667 | 1/31/1996 |
| | | Korea, South | 28587 | 9/14/1995 |
| | | Korea, South | 331768 | 1/18/1996 |
| | | Mexico | 438613 | 8/2/1993 |
| | | Mexico | 505029 | 3/25/1993 |
| | | New Zealand | 248571 | 4/27/1995 |
| | | New Zealand | 248572 | 4/27/1995 |
| | | New Zealand | 248573 | 4/27/1995 |
| | | Nigeria | 55389 | 2/23/1993 |
| | | Norway | 179628 | 2/6/1997 |
| | | Peru | 9342 | 8/15/1994 |
| | | Peru | 1790 | 4/4/1994 |
| | | Portugal | 309651 | 5/6/1996 |
| | | Portugal | 309653 | 5/6/1996 |
| | | Portugal | 309654 | 5/6/1996 |
| | | Romania | 23417 | 6/15/1994 |
| | | Russian Fed. | 132875 | 6/23/1994 |
| | | Saudi Arabia | 339/44 | 5/16/1995 |
| | | Saudi Arabia | 339/45 | 5/16/1995 |
| | | Saudi Arabia | 339/46 | 5/16/1995 |

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|---|---|---|---|
| | | Singapore | S/B275/93 | 1/13/1993 |
| | | Singapore | T93/00274G | 1/13/1993 |
| | | South Africa | 95/05647 | 5/2/1995 |
| | | South Africa | 95/05648 | 5/2/1995 |
| | | South Africa | 95/05649 | 5/2/1995 |
| | | Spain | 1742151 | 1/29/1993 |
| | | Spain | 1742152 | 1/29/1993 |
| | | Sweden | 311096 | 4/4/1996 |
| | | Switzerland | 403673 | 2/4/1993 |
| | | Switzerland | 409245 | 4/1/1993 |
| | | Taiwan | 74683 | 3/1/1995 |
| | | Taiwan | 678390 | 4/15/1995 |
| | | Taiwan | 676627 | 3/31/1995 |
| | | Thailand | 261269 | 7/27/1994 |
| | | Thailand | BOR2856 | 7/26/1994 |
| | | Tunisia | 951375 | 10/23/1995 |
| | | Turkey | 163994 | 9/18/1995 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | Turkey | 170364 | 9/18/1995 |
| | | UK | B1523024 | 12/31/1992 |
| | | Vietnam | 10557 | 3/20/1993 |
| | | Zimbabwe | B679/94 | 5/11/1994 |
| | | Zimbabwe | B680/94 | 5/11/1994 |
| | | Zimbabwe | B681/94 | 5/11/1994 |
| Ingersoll-Dresser Pump Company | MONOBLOC | Algeria | 044988 | 2/19/1966 |
| | | Austria | 21508 | 2/27/1951 |
| | | France | 92423560 | 6/16/1992 |
| Ingersoll-Dresser Pump | NIIGATA-WORTHINGTON | Japan | 49354 | 1/14/1957 |
| Ingersoll-Dresser Pump Company | NIIGATA-WORTHINGTON (KATAKANA) | Japan | 494355 | 1/14/1957 |
| Ingersoll-Dresser Pump Company | P & DESIGN | Colombia | 125406 | 12/12/1988 |
| | | Germany | 1021743 | 2/18/1981 |
| | | Jordan | 19659 | 2/11/1982 |
| | | Korea, South | 83789 | 9/10/1982 |
| | | Germany | 545478 | 1/24/1941 |
| | | Japan | 176997 | 9/26/1984 |
| Pleuger Worthington GMBH | P & DESIGN | Mexico | 253672 | 4/15/1980 |
| Ingersoll-Dresser Pump Company | PACIFIC | Argentina | 1666563 | 9/30/1959 |
| | | Argentina | 1666564 | 9/30/1959 |
| | | Australia | A127250 | 4/11/1956 |
| | | Austria | 49220 | 12/3/1962 |
| | | Bangladesh | 27507 | 10/5/1988 |
| | | Benelux | 62720 | 9/24/1971 |
| | | Bolivia | 54431-A | 6/27/1989 |
| | | Brazil | 003391612 | 8/22/1956 |
| | | Canada | NS68/17863 | 1/13/1943 |
| | | Canada | 128775 | 11/16/1962 |
| | | Chile | 451999 | 12/10/1965 |
| | | Colombia | 139822 | 6/25/1992 |
| | | Denmark | VR023321965 | 9/4/1965 |
| | | Ecuador | 710-90 | 4/6/1990 |
| | | France | 1719792 | 7/25/1980 |
| | | Germany | 688516 | 11/2/1954 |
| | | Greece | 33333 | 4/3/1965 |
| | | India | 210610 | 8/13/1962 |
| | | Iran | 26725 | 4/22/1965 |
| | | Israel | 24302 | 3/21/1965 |

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|---|---|---|---|---|
| | | Italy | 694846 | 4/24/1954 |
| | | Japan | 488284 | 9/19/1956 |
| | | Korea, South | 9723 | 4/2/1965 |
| | | Kuwait | 2386 | 10/17/1965 |
| | | Mexico | 80531 | 11/10/1954 |
| | | New Zealand | 953440 | 7/5/1944 |
| | | Norway | 67207 | 10/21/1965 |
| | | Paraguay | 134770 | 6/30/1989 |
| | | Peru | 37498 | 11/2/1965 |
| | | Philippines | 12329 | 5/26/1966 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | Portugal | 129783 | 5/25/1966 |
| | | South Africa | 62/2628 | 8/7/1962 |
| | | Sweden | 106339 | 5/31/1963 |
| | | Taiwan | 23742 | 10/1/1966 |
| | | Thailand | KOR29864 | 4/1/1995 |
| | | Turkey | 119076 | 5/12/1965 |
| | | UK | B751119 | 2/20/1956 |
| | | Uruguay | 303877 | 8/17/1966 |
| | | Venezuela | 31189-F | 10/4/1956 |
| Ingersoll-Dresser Pump Company | PACIFIC (MANDARIN) | China | 530868 | 10/10/1990 |
| Ingersoll-Dresser Pump Company | PLEMA | France | R396448 | -- |
| | | Intern'l Design | R396448 | 12/19/1972 |
| | | Liechtenstein | R396448 | -- |
| | | Switzerland | R396448 | -- |
| Ingersoll-Dresser Pump Company | PLEUGER | Algeria | R467259 | -- |
| | | Australia | A523499 | 11/16/1989 |
| | | Austria | R467267 | -- |
| | | Canada | 280382 | 6/17/1983 |
| | | Chile | 413406 | 9/27/1993 |
| | | China | 530863 | 10/10/1990 |
| | | Colombia | 147082 | 5/21/1992 |
| | | Czech Republic | 166564 | 8/28/1986 |
| | | Germany | 1021744 | 2/18/1981 |
| | | Greece | 70143 | 10/26/1981 |
| | | Intern'l Design | R467269 | 9/28/1981 |
| | | Italy | R4672699 | -- |
| | | Japan | 1885896 | 8/28/1986 |
| | | Japan | 2014542 | 1/26/1998 |
| | | Japan | 2207997 | 1/30/1990 |
| | | Jordan | 20834 | 4/20/1983 |
| | | Korea, South | 257166 | 1/13/1993 |
| | | Korea, South | 82705 | 6/30/1982 |
| | | Morocco | R467269 | -- |
| | | Portugal | 215114 | 10/17/1988 |
| | | Portugal | 215113 | 10/17/1998 |
| | | Romania | R467269 | -- |
| | | Slovenia | 7881112 | -- |
| | | South Africa | 81/8001 | 8/19/1981 |
| | | Switzerland | R467269 | -- |
| | | Tunisia | R467269 | -- |
| | | UK | 1435951 | 8/13/1990 |
| | | Venezuela | 117058-F | 4/18/1986 |
| | | Venezuela | 114275-F | 9/23/1985 |
| | | Yugoslavia | 27109 | 9/15/1983 |
| Ingersoll-Dresser Pump Company | PLEUGER | Argentina | 1273631 | 3/7/1998 |
| | | Argentina | 1273632 | 3/7/1988 |
| | | Benelux | 412115 | 9/23/1985 |
| | | Japan | 2207997 | 6/30/1990 |
| | | Mexico | 269420 | 4/15/1980 |

| | | | | |
|---|---|---|---|---|
| | | Spain | 828086 | 9/30/1976 |
| | | Spain | 828087 | 10/5/1978 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | PLEUGER | Slovak Republic | 166564 | 8/28/1986 |
| Ingersoll-Dresser Pump Company | PLEUGER & P (DESIGN) | Brazil | 007230664 | 10/25/1980 |
| | | Egypt | 65019 | 12/15/1984 |
| | | France | 1737816 | 10/9/1981 |
| | | Jordan | 28428 | 12/3/1990 |
| | | Jordan | 28427 | 12/3/1990 |
| Ingersoll-Dresser Pump Company | PLEUGER & P (DESIGN) | Philippines | 39734 | 6/27/1998 |
| Ingersoll-Dresser Pump Company | PLEUGER & P DESIGN | Taiwan | 172547 | 2/16/1982 |
| Ingersoll-Dresser Pump Company | PLEUGER & PLEUGER SEE REMARKS | Taiwan | 172546 | 2/16/1982 |
| Ingersoll-Dresser Pump Company | PLEUGER (CHINESE CHARACTERS) | Taiwan | 172545 | 2/16/1982 |
| Ingersoll-Dresser Pump Company | PLEUGER (MANDARIN) | China | 530870 | 10/10/1990 |
| Ingersoll-Dresser Pump Company | PLEUGER-PUMPE | Germany | 521654 | 1/23/1940 |
| Ingersoll-Dresser Pump Company | SIER-BATH | Benelux | 384826 | 9/28/1982 |
| | | France | 1420115 | 6/4/1962 |
| | | Germany | 808839 | 5/2/1962 |
| | | Italy | 409304 | 6/26/1962 |
| | | Japan | 652223 | 9/8/1964 |
| | | Canada | TMA453078 | 1/26/1996 |
| Ingersoll-Dresser Pump Company | WASSERSTAN DSWACHTER | Germany | 454359 | 1/12/1933 |
| Ingersoll-Dresser Pump Company | WORTHINGTON | Algeria | 052062 | 1/10/1952 |
| | | Australia | A32253 | -- |
| | | Austria | 24604 | 11/30/1951 |
| | | Brazil | 003299457 | 4/16/1966 |
| | | Canada | TMDA02715 | 7/16/1986 |
| | | Egypt | 9511 | 6/23/1943 |
| | | France | 1719794 | 3/9/1990 |
| | | Germany | 785822 | 10/17/1962 |
| | | Germany | 631079 | 10/18/1962 |
| | | India | 7542 | 11/9/1942 |
| | | Ireland, Rep. of | 48179 | |
| | | Ireland, Rep. of | 32244 | 10/27/1984 |
| | | Italy | 334337 | 6/21/1956 |
| | | Morocco | 45536 | 11/1/1990 |
| | | New Zealand | B20315 | 7/5/1937 |
| | | Norway | 10709 | |
| | | Paraguay | 167252 | 4/17/1983 |

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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | South Africa | 997/21 | |
| | | South Africa | 88/1404 | 2/24/1988 |
| | | Sweden | 75754 | 4/2/1954 |
| | | Tanganyika | 18465 | 12/31/1980 |
| | | Tanganyika | 18467 | 12/31/1980 |
| | | Thailand | KOR64963 | 9/29/1994 |
| | | Trinidad & Tobago | 85/21 | 12/15/1921 |
| | | Tunisia | EE95.1547 | 1/27/2022 |
| | | Turkey | 83509 | 11/30/1944 |
| | | Uganda | 15292 | 2/14/1980 |
| | | UK | 418012 | 8/26/1921 |
| | | UK | 40477 | 10/27/1984 |
| | | UK | 2104125 | 7/2/1996 |
| | | Uruguay | 313638 | 1/31/1957 |
| | | Venezuela | 14197 | -- |
| | | Zanzibar | 81/1987 | 12/19/1980 |
| | | Zanzibar | 82/1987 | 12/19/1980 |
| Ingersoll-Dresser Pump Company | WORTHINGTON N & W (DESIGN) | Algeria | 047465 | 9/24/1966 |
| | | Argentina | 1563127 | 11/23/1959 |
| | | Argentina | 1551784 | 1/31/1995 |
| | | Argentina | 1626931 | 11/23/1959 |
| | | Australia | A175418 | 8/13/1962 |
| | | Austria | 41819 | 8/3/1959 |
| | | Bangladesh | 29796 | 11/28/1989 |
| | | Benelux | 105862 | 12/31/1971 |
| | | Bolivia | 51199-C | 4/2/1991 |
| | | Brazil | 003013529 | 7/13/1964 |
| | | Canada | 125466 | 2/16/1962 |
| | | Chile | 351922 | 6/5/1959 |
| | | China | 503488 | 11/10/1989 |
| | | Colombia | 44963 | 12/3/1959 |
| | | Costa Rica | 77072 | 9/12/1991 |
| | | Cuba | 107546 | 5/6/1964 |
| | | Denmark | VR195901859 | 10/10/1959 |
| | | Ecuador | 1372-95 | 7/11/1960 |
| | | Finland | 40461 | 3/21/1963 |
| | | France | 1261905 | 4/20/1959 |
| | | Germany | 775252 | 6/26/1959 |
| | | Greece | 24454 | 6/17/1959 |
| | | Guatemala | 48989 | 8/16/1985 |
| | | Hong Kong | 724/1965 | 8/28/1962 |
| | | India | 211269 | 9/13/1962 |
| | | Iran | 19478 | 6/20/1959 |
| | | Ireland, Rep. of | 72136 | 5/12/1966 |
| | | Israel | 17813 | 6/26/1959 |
| | | Israel | 17814 | 6/26/1959 |
| | | Italy | 374820 | 6/19/1959 |
| | | Jamaica | 8031 | 12/8/1959 |
| | | Japan | 638392 | 3/9/1964 |
| | | Korea, South | 189582 | 3/19/1990 |
| | | Malaysia | 88/04833 | 9/19/1988 |
| | | Mexico | 246309 | 12/13/1979 |



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| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | | Mexico | 345651 | 9/11/1986 |
| | | New Zealand | B71515 | 8/10/1962 |
| | | Nicaragua | 10061 | 10/23/1959 |
| | | Norway | 54110 | 6/17/1959 |
| | | Pakistan | 37565 | 8/22/1962 |
| | | Panama | 8642 | 4/12/1965 |
| | | Paraguay | 137393 | 7/6/1989 |
| | | Peru | 057243 | 4/29/1985 |
| | | Portugal | 178044 | 10/4/1962 |
| | | Puerto Rico | 12247 | 8/30/1962 |
| | | Romania | R2665 | 11/17/1951 |
| | | Samoa | 1272 | 6/7/1974 |
| | | South Africa | 88/1405 | 2/24/1988 |
| | | Spain | 407727 | 1/9/1963 |
| | | Spain | 407725 | 1/9/1963 |
| | | Spain | 407724 | 1/9/1963 |
| | | Spain | 407729 | 1/15/1963 |
| | | Spain | 407730 | 3/20/1967 |
| | | Spain | 407728 | 8/28/1962 |
| | | Sweden | 89544 | 5/20/1960 |
| | | Switzerland | 320566 | 1/18/1962 |
| | | Syria | 10572 | 8/5/1959 |
| | | Taiwan | 354221 | 1/16/1987 |
| | | Tanganyika | 18466 | 12/31/1980 |
| | | Turkey | 108317 | 2/16/1962 |
| | | Uganda | 15291 | 2/14/1980 |
| | | UK | B839392 | 9/18/1962 |
| | | Uruguay | 280992 | 8/31/1964 |
| | | Venezuela | 43704F | 2/4/1963 |
| | | Zanzibar | 83/1987 | 12/19/1980 |
| | | Zimbabwe | B112/88 | 3/4/1988 |
| Ingersoll-Dresser Pump Company | WORTHINGTON (MANDARIN) | China | 530869 | 10/9/1990 |
| Ingersoll-Dresser Pump Company | WORTHINGTON SIMPSON | Malaysia | M/82471 | 5/25/1979 |
| | | Malaysia | M/82472 | 5/25/1979 |
| | | Malaysia | M/82470 | 5/25/1979 |
| | | Singapore | S/1348/85 | 3/28/1985 |
| | | Singapore | S/1349/85 | 3/28/1985 |
| | | Singapore | 01350 | 3/28/1985 |
| | | Singapore | 01351 | 3/28/1985 |
| | | Singapore | 80485 | 5/23/1979 |
| | | Singapore | 80488 | 5/23/1979 |
| | | Singapore | 80486 | 5/23/1979 |
| | | Singapore | 80487 | 5/23/1979 |
| | | UK | 899194 | 9/8/1966 |
| | | UK | 899195 | 9/8/1966 |
| | | UK | 899196 | 9/8/1966 |
| | | UK | 899197 | 9/8/1966 |
| Ingersoll-Dresser Pump Company | WORTHITE | Algeria | 044987 | 6/17/1948 |
| Ingersoll- Dresser Pump Company | X-CAVALLOY | Austria | 161571 | 12/31/1995 |
| | | Benelux | 581951 | 8/3/1995 |





| GRANTOR | TRADEMARK | COUNTRY | REGISTRATION NUMBER | REGISTRATION DATE |
|---|---|---|---|---|
| | | China | 1289361 | 6/28/1999 |
| | | Denmark | VR015321998 | 3/27/1998 |
| | | Finland | 212294 | 12/15/1998 |
| | | France | 95584375 | 8/10/1995 |
| | | Germany | 39531732 | 8/2/2005 |
| | | Italy | 730621 | 9/20/1995 |

| | | | | |
|---|---|---|---|---|
| | | Japan | 4312981 | 9/10/1999 |
| | | Korea, South | 436662 | 12/30/1998 |
| | | Mexico | 577363 | 3/9/1998 |
| | | Norway | 190988 | 6/18/1998 |
| | | Poland | R-103163 | 8/25/1995 |
| | | Portugal | 311811 | 7/9/1996 |
| | | Spain | 1980408 | 8/3/1995 |
| | | Switzerland | 430859 | 7/28/1995 |
| | | UK | 2028853 | 3/29/1996 |
| IDP Alternate Energy Company | NONE | | | |
| Energy Hydro, Inc. | NONE | | | |
| Pump Investments, Inc. | NONE | | | |



C. IDP TRADEMARKS

4. NON-U.S. TRADEMARK APPLICATIONS

(All Ingersoll-Dresser Pump Company Patents to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | TRADEMARK | COUNTRY | APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | IDP LOGO | Egypt | PENDING | |
| | | Egypt | PENDING | |
| | | Egypt | PENDING | |
| | | India | PENDING | |
| | | Kuwait | PENDING | |
| | | Kuwait | PENDING | |
| | | Kuwait | PENDING | |
| | | Lebanon | PENDING | |
| | | Malaysia | PENDING | |
| | | Malaysia | PENDING | |
| | | Malaysia | PENDING | |
| | | Pakistan | PENDING | |
| | | Qatar | PENDING | |
| | | Qatar | PENDING | |
| | | Qatar | PENDING | |
| | | Venezuela | PENDING | |
| | | Venezuela | PENDING | |
| Ingersoll-Dresser Pump Company | PLEUGER | Bosnia-Herz. | PENDING | -- |
| | | Croatia | PENDING | -- |
| Ingersoll-Dresser Pump Company | WORTHINGTON N & W (DESIGN) | Philippines | PENDING | |
| Ingersoll-Dresser Pump Company | X-CAVALLOY | Brazil | PENDING | |
| | | Canada | PUBLISHED | |
| | | Czech Republic | PUBLISHED | |
| | | India | PENDING | |
| | | Romania | PENDING | |
| | | Slovak Rep. | PENDING | |
| | | South Africa | PENDING | |
| | | Sweden | PENDING | |
| | | Taiwan | PUBLISHED | |
| | | Turkey | PENDING | |
| | | Venezuela | PUBLISHED | |
| IDP Alternate Energy Company | NONE | | | |

Energy Hydro, Inc. NONE

Pump Investments, Inc. NONE



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SCHEDULE III TO THE
SECURITY AGREEMENT

LICENSES

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PART I

A. LICENSES / SUBLICENSES OF FLOWSERVE GRANTORS

1. COPYRIGHTS

None

2. PATENTS

FLOWSERVE INTERNATIONAL, INC.

| LICENSEE NAME | DATE OF LICENSE/SUBLICENSE | TITLE OF U.S. PATENT | APPLICATION DATE FILED/ISSUE DATE | APPLICATION/PATENT NUMBER |
|---|---|---|---|---|
| Mitsubishi Heavy Industries | 9/24/87 | Not Specified | | |
| United Pumps of Canada, Ltd. | 8/13/91 | " | | |
| BW Mechanical Seals (S.E.A.) PTE, Ltd. | 1/1/93 | " | | |
| BW/IP de Venezuela S.A. | Undated | " | | |
| BW/IP International B.V. (Netherlands) | 1/1/93 | " | | |
| BW/IP International, Ltd. | 1/1/93 | " | | |
| EMCO Fluid Systems, Inc. | 8/1/87 | " | | |
| Borg Warner Australia Ltd. | 1/1/81 | " | | |



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FLOWSERVE FSD CORPORATION

| LICENSEE NAME | DATE OF LICENSE/SUBLICENSE | TITLE OF NON-U.S. PATENT | COUNTRY | APPLICATION DATE FILED/ISSUE DATE | APPLICATION/PATENT NUMBER |
|---|---|---|---|---|---|
| Arabian Seals Company Limited | 12/18/91 | Self-Cooled Seal Bellows Seal | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | Face Arrangement | | | |
| | | Bellows Seal Tapered Seat | | | |
| | | HSB Dura Seal | | | |
| | | Integral Pumping Device (XRO/RA) | | | |
| | | Seal Arrangement for Mill Roll | | | |
| | | Coolant Circulation Tube | | | |
| | | Bearing Guard | | | |
| Korea Seal Master Co. Ltd. | 1/8/90 | Dry Running Seal | | | |
| | | Split Mixer Seal | | | |
| | | Split Pump Seal | | | |
| | | Bearing Guard | | | |
| | | High Performance Split Seal | | | |
| | | Dry Running Seal | | | |
| Durametallic India Ltd. | 11/24/75 | Not Specified | | | |
| Petech/Durametallic (New Zealand) Ltd. | 6/30/89 | Petch Split Seal | New Zealand | | |
| Petech/Durametallic (Australia) Pty Ltd. | 6/30/89 | Thermal Bushing | Australia | | |
| | | Integral Pumping Feature | Australia | | |
| | | Magnetic Seal | Australia | 1989 | 4,795,168 |
| Durametallic Asia Pte. Ltd. | 9/1/83 | Mechanical Seal | Malaysia | | MY-104440A |



## 3. TRADEMARKS

FLOWSERVE INTERNATIONAL, INC.

| LICENSEE NAME | DATE OF LICENSE/SUBLICENSE | TITLE OF U.S. TRADEMARK | APPLICATION DATE FILED/REGISTRATION DATE | APPLICATION/ REGISTRATION NUMBER |
|---|---|---|---|---|
| Mitsubishi Heavy Industries | 9/24/87 | Not Specified | | |
| PT BW Mechanical Seals Indonesia | 12/1/93 | " | | |
| BW Mechanical Seals (S.E.A.) PTE, Ltd. | 1/1/93 | " | | |
| BW/IP de Venezuela S.A. | Undated | " | | |
| BW/IP International B.V. | 1/1/93 | " | | |
| BW/IP International, Ltd. | 1/1/93 | " | | |
| EMCO Fluid Systems, Inc. | 8/1/87 | " | | |

| | | | | | |
|---|---|---|---|---|---|
| Borg Warner Australia Ltd. | 1/1/81 | | | | |

FLOWSERVE FSD CORPORATION

| LICENSEE NAME AND ADDRESS | DATE OF LICENSE/SUBLICENSE | TITLE OF NON-U.S. TRADEMARK | COUNTRY | APPLICATION DATE FILED/ REGISTRATION DATE | APPLICATION/ REGISTRATION NUMBER |
|---|---|---|---|---|---|
| Arabian Seals Company Limited | 12/18/91 | Not Specified | | | |
| Korea Seal Master Co. Ltd. | 1/8/90 | " | | | |
| Petech/Durametallic (New Zealand) Ltd. | 6/30/89 | Dura Seal | New Zealand | 1980 | RN B131581 |
| | | Durametallic | New Zealand | | |
| | | Durafite | New Zealand | | |
| Petech/Durametallic | 6/30/89 | Dura Seal | Australia | 1961 | RN A166362 |
| (Australia) Pty Ltd. | | Durametallic | Australia | 1974 | RN A208222 |
| | | Dura Lapper | Australia | | |
| | | Durafite | Australia | | |
| Durametallic Asia | 9/1/83 | BW Seals | Singapore | B4733/92 | 6/24/1992 |
| Pte. Ltd. | | BW/IP (Stylized) | Singapore | B4732/92 | 6/24/1992 |
| | | Durametallic | Singapore | RN 61098 | 1974 |
| | | Dura Seal | Singapore | RN 61099 | 1974 |
| | | Flowserve | Singapore | T97/15408H | 6/20/1997 |
| | | Automax | Singapore | S/9706/93 | 12/8/1993 |
| | | Byron Jackson | Malaysia | M/B73923 | 1/6/1977 |
| | | Byron Jackson | Malaysia | M/B73924 | 1/6/1997 |
| | | Durametallic | Malayasia | RN M/093116 | 1981 |
| | | BW/IP (Stylized) | Indonesia | 280410 | 10/2/1992 |



| LICENSEE NAME AND ADDRESS | DATE OF LICENSE/SUBLICENSE | TITLE OF NON-U.S. TRADEMARK | COUNTRY | APPLICATION DATE FILED/ REGISTRATION DATE | APPLICATION/ REGISTRATION NUMBER |
|---|---|---|---|---|---|
| | | Byron Jackson | Indonesia | 403517 | 11/6/1997 |
| | | Durametallic | Indonesia | RN 116961 | 1997 |
| | | Dura Seal | Indonesia | RN 120468 | 1977 |
| | | Flowserve | Indonesia | 432025 | 2/10/1998 |
| | | Flowserve | Indonesia | 432026 | 2/10/1998 |
| | | BW/IP (Stylized) | Thailand | 44725 | 8/2/1995 |
| | | Byron Jackson | Thailand | 55986 | 1/14/1977 |
| | | Durametallic | Thailand | RN 86654 | 1981 |
| | | Dura Seal | Thailand | RN 77295 | 1981 |
| | | United | Thailand | RN TM42107 | 1995 |
| | | BW Seals | Philippines | 58015 | 5/12/1994 |
| | | BW/IP (Stylized) | Philippines | 55437 | 6/21/1993 |
| | | Byron Jackson | Philippines | 35460 | 3/5/1986 |

| | | | | | |
|---|---|---|---|---|---|
| | | Durametallic | Philippines | RN 22830 | 1976 |
| | | Dura Seal | Philippines | RN 23124 | 1976 |
| Durametallic Europe N.V. | 9/1/89 | Not Specified | | | |
| Durametallic GmbH (Germany) | 1/1/90 | Durafite | Germany | RN 893562 | 1970 |



B. LICENSES / SUBLICENSES OF INVATEC GRANTORS

1. COPYRIGHTS

None

2. PATENTS

None

3. TRADEMARKS

None



C. LICENSES / SUBLICENSES OF IDP GRANTORS

1. COPYRIGHTS

None

2. PATENTS

None

3. TRADEMARKS

None



PART 2

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A. LICENSES / SUBLICENSES OF FLOWSERVE GRANTORS

AS LICENSEE ON DATE HEREOF

1. COPYRIGHTS

None

2. PATENTS

FLOWSERVE INTERNATIONAL, INC.

| LICENSOR NAME | DATE OF LICENSE/SUBLICENSE | TITLE OF U.S. PATENT | APPLICATION DATE FILED/ISSUE DATE | APPLICATION/PATENT NUMBER |
|---|---|---|---|---|
| Technip and Snamprogetti S.p.A. | 9/13/95 | Not Specified | | |
| BW Mechanical Seals | 1/1/91 | " | | |
| Ebara Corporation | 11/9/92 | " | | |

3. TRADEMARKS

FLOWSERVE INTERNATIONAL, INC.

| LICENSOR NAME | DATE OF LICENSE/SUBLICENSE | TITLE OF U.S. TRADEMARK | APPLICATION DATE FILED/REGISTRATION DATE | APPLICATION/ REGISTRATION NUMBER |
|---|---|---|---|---|
| BW/Abahsain Seal Company, Ltd. | Undated | Not Specified | | |
| BW Mechanical Seals | 1/1/91 | " | | |
| Ebara Corporation | 11/9/92 | " | | |



B. LICENSES / SUBLICENSES OF INVATEC GRANTORS
AS LICENSEE ON DATE HEREOF

1. COPYRIGHTS

None

2. PATENTS

None

3. TRADEMARKS

None

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B. LICENSES / SUBLICENSES OF IDP GRANTORS
AS LICENSEE ON DATE HEREOF

1. COPYRIGHTS

None

2. PATENTS

None

3. TRADEMARKS

None



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SCHEDULE IV TO THE
SECURITY AGREEMENT

PATENTS

A. FLOWSERVE PATENTS

1. U.S. PATENT REGISTRATIONS

| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | HALL EFFECT MONITORING OF BEARINGS SUPPORTING A ROTOR WITHIN A STATIONARY HOUSING | 5336996 | 8/9/1994 |
| Flowserve Management Company | METHOD FOR INDUCTION MELTING REACTIVE METALS AND ALLOYS (2 RE-EXAMS OF U.S. PATENT NO. 4,738,713) | 4738713 | 1/4/1994 |
| Flowserve Management Company | METHOD FOR INDUCTION MELTING REACTIVE METALS AND ALLOYS | 4738713 | 4/19/1988 |
| Flowserve Management Company | POLYMERIC FLUOROCARBON ROTOMOLDING/ROTOLINING COMPOSITION | 4312961 | 1/26/1982 |
| Flowserve Management Company | METHOD OF JOINING MATERIALS BY MECHANICAL INTERLOCK AND ARTICLE | 4560607 | 12/24/1985 |
| Flowserve Management Company | ADJUSTABLE BALL VALVE | 5746417 | 5/5/1998 |
| Flowserve Management Company | PLUG VALVE ASSEMBLY | 4055324 | 10/25/1977 |
| Flowserve Management Company | HIGH PERFORMANCE BUTTERFLY VALVE | 6029949 | 2/29/2000 |
| Flowserve Management Company | FIRE RESISTANT SEAL FOR FLOW CONTROL VALVE | 4373543 | 2/15/1983 |

| | | | |
|---|---|---|---|
| Flowserve Management Company | PLUG VALVE | 4711264 | 12/8/1987 |
| Flowserve Management Company | LINED CORROSION RESISTANT PUMP | 4722664 | 2/2/1988 |
| Flowserve Management Company | SEAL CHAMBER SPLASH GUARD | 5807086 | 9/15/1998 |
| Flowserve Management Company | HEAT TREATMENT OF CAST ALPHA / BETA METALS AND METAL ALLOYS AND CAST ARTICLES WHICH HAVE BEEN SO TREATED | 5900083 | 5/4/1999 |



| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | METHOD OF APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | 5062439<br>5052427 | 11/5/1991<br>10/1/1991 |
| Flowserve Management Company | METHOD OF APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER (Reissue of U.S. 5052427) | RE35116 | 10/1/1991 |
| Flowserve Management Company | FRICTION WELDING APPARATUS | 5558265<br>5735447 | 9/24/1996<br>4/7/1998 |
| Flowserve Management Company | MECHANICAL SEAL WITH IMPROVED FACE RING MOUNTING. | 4,261,581 | 1981 |
| Flowserve Management Company | CABLE GUIDE FOR A TUBULAR ANODE | 4,268,371 | 1981 |
| Flowserve Management Company | THRUST BEARING ARRANGEMENT | 4363608 | 1982 |
| Flowserve Management Company | TAPERED SEAL SEAT BETWEEN STATIONARY INSERT AND GLAND | 4,364,571 | 1982 |
| Flowserve Management Company | BACK-UP MECHANICAL SEAL | 189746 | 1983 |
| Flowserve Management Company | MECHANICAL SEALS FOR USE WITH SLURRY PUMPS | 4418919 (RE32646) | Issued 1983 (RE1988) |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL | 4,418,921 | 1983 |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL ASSEMBLY | 4426092 | 1984 |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY | 4448428 | 1984 |
| Flowserve Management Company | VACUUM BREAKER VALVE WITH INTERNALLY BALANCED DISC. | 4502503 | 1985 |
| Flowserve Management Company | PUMP-MECHANICAL SEAL CONSTRUCTION WITH AXIAL ADJUSTMENT MEANS | 4509773 | 1985 |
| Flowserve Management Company | MECHANICAL SEAL WITH CYLINDRICAL BALANCE SLEEVE | 4511149 | 1985 |

| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | HYDRAULIC PROXIMITY PROBE | 4,523,451 | 1985 |
| Flowserve Management Company | SHAFT SEAL | 4,538,820 | 1985 |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY WITH COOLANT CIRCULATION STRUCTURE | 4,560,173 | 1985 |
| Flowserve Management Company | DOUBLE DISC GATE VALVE | 4,573,660 | 1986 |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL | 4586719 | 1986 |
| Flowserve Management Company | PUMP IMPROVEMENT | 4,621,981 | 1986 |
| Flowserve Management Company | ADJUSTABLE STATOR MECHANISM FOR HIGH PRESSURE RADIAL TURBINES AND THE LIKE | 4,629,396 | 1986 |
| Flowserve Management Company | MECHANICAL SEAL WITH AUTOMATIC GAP CONVERGENCE CONTROL | 4,643,437 | 1987 |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL FOR PUMPS AND METHOD OF FABRICATING SAME | 4,653,980 | 1987 |
| Flowserve Management Company | HYDROSTATIC BEARING FOR PUMPS AND THE LIKE | 4684318 | 1987 |
| Flowserve Management Company | PUMP CONSTRUCTION | 4688990 | 1987 |
| Flowserve Management Company | ADAPTIVE CONTROL SYSTEM FOR MECHANICAL SEAL ASSEMBLY | 4,691,276 | 1987 |
| Flowserve Management Company | ISOSTATIC MOLDING AND BONDING | 4,701,291 | 1987 |
| Flowserve Management Company | IMPROVER MECHANICAL SEAL FOR PUMPS | 4,703,939 | 1987 |
| Flowserve Management Company | PLUG VALVE | 4,711,264 | 1987 |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY WITH COOLANT CIRCULATION TUBE | 4,721,311 | 1988 |



| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | FLUID FLOW CONTROL MEANS FOR PUMPS AND THE LIKE | 4,721,435 | 1988 |
| Flowserve Management Company | FACE SEAL WITH AUTOMATIC FACE CONVERGENCE MEANS | 4722534 | 1988 |
| Flowserve Management Company | BEARING PROTECTOR | 4,743,034 | 1988 |
| Flowserve Management Company | BELLOWS MECHANICAL SEAL WITH INACTIVE DIAPHRAGMS | 4,744,569 | 1988 |

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|---|---|---|---|
| Flowserve Management Company | LOW NOISE PLUG VALVE | 4,774,984 | 1988 |
| Flowserve Management Company | PUMP WITH HEAT EXCHANGER | 4,775,293 | 1988 |
| Flowserve Management Company | MAGNETIC SEAL ASSEMBLY | 4,795,168 | 1989 |
| Flowserve Management Company | MECHANICAL SEAL LUBRICATION IMPROVEMENT | 4,804,194 | 1989 |
| Flowserve Management Company | PUMP HOUSING, MOULD PARTS OF A MOULD WALL FOR A PUMP HOUSING AND METHOD OF MANUFACTURING A PUMP HOUSING | 4,869,643 | |
| Flowserve Management Company | BELLOWS SEAL WITH VIBRATION DAMPER | 4,890,851 | 1990 |
| Flowserve Management Company | BEARING PROTECTOR WITH SLINGER RING | 4,890,941 | 1990 |
| Flowserve Management Company | CROSS-FLOW TRAP | 4,923,487 | 1990 |
| Flowserve Management Company | PUMP WITH HEAT EXCHANGER | 4,932,836 | 1990 |
| Flowserve Management Company | LIGHTWEIGHT HYDROGEL-BOUND AGGREGATESHAPES AND PROCESS FOR PRODUCING SAME | 4,963,515 | 1990 |
| Flowserve Management Company | FLUID HANDLING APPARATUS WITH SHAFT SLEEVE AND EXTENSION | 4,964,646 | 1990 |
| Flowserve Management Company | MULTI-ELEMENT, BI-DIRECTIONAL VALVE SEAT | 4,968,001 | 1990 |



| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | FILTER LEAF | 4,968,423 | 1990 |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY | 4,971,337 | 1990 |
| Flowserve Management Company | REDUCTION OF TRANSIENT THERMAL STRESSES IN MACHINE COMPONENTS | 4,997,341 | 1991 |
| Flowserve Management Company | HOUSING SEAL CHAMBER BODY | 5,035,436 | |
| Flowserve Management Company | PUMP HOUSING, MOULD PARTS OF A MOULD WALL FOR A PUMP HOUSING AND METHOD OF MANUFACTURING A PUMP HOUSING | 5,035,574 | 1991 |
| Flowserve Management Company | REDUCTION OF TRANSIENT THERMAL STRESSES IN MACHINE COMPONENTS | 5,072,608 | 1991 |
| Flowserve Management Company | MECHANICAL SEAL | 5,076,589 | 1991 |
| Flowserve Management Company | PUMP WITH SEAL PURGE HEATER | 5,143,515 | 1992 |
| Flowserve Management Company | PRESSURE RECOVERY SEAL | 5,193,974 | 1993 |

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|---|---|---|---|
| Flowserve Management Company | HEAT EXCHANGER THERMAL SHIELD WITH FLOW GUIDE | 5,246,337 | 1993 |
| Flowserve Management Company | BEARING PROTECTION DEVICE | 5,290,047 | 1994 |
| Flowserve Management Company | SEMI-CARTRIDGE SEAL | 5,294,132 | 1994 |
| Flowserve Management Company | METHOD FOR CONSTRUCTING A PUMPING INSTALLATION | 5,304,034 | 1994 |
| Flowserve Management Company | MULTI-STAGE CENTRIFUGAL PUMP | 5,340,272 | 1994 |
| Flowserve Management Company | NON-CANTACTING FACE SEAL | 5,370,403 | 1994 |
| Flowserve Management Company | BALL VALVE COUPLING | 5,386,967 | 1995 |



| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | FLUID FILM SEAL | 5,388,843 | 1995 |
| Flowserve Management Company | PUMP WITH MEDIUM TIGHT SHELL AND VENTING MEANS | 5,435,701 | 1995 |
| Flowserve Management Company | PUMP WITH MEDIUM TIGHT SHELL AND VENTING MEANS | 2,274,683 | |
| Flowserve Management Company | IMPROVED EFFICIENCY MULTI-STAGE PUMP | 5,445,494 | 1995 |
| Flowserve Management Company | SHAFT ALIGNMENT DEVICE | 5,479,718 | 1996 |
| Flowserve Management Company | SECONDARY GAS/LIQUID MECHANICAL SEAL ASSEMBLY | 5,487,550 | 1996 |
| Flowserve Management Company | DOUBLE GAS BARRIER SEAL | 5,498,007 | 1996 |
| Flowserve Management Company | FACE SEAL WITH ANGLED GROOVES | 5,531,458 | 1996 |
| Flowserve Management Company | NON-CONTACTING SEAL WITH CENTERING SPRING MOUNTED IN DOVETAILED GROOVED | 5,533,739 | 1996 |
| Flowserve Management Company | FACE RING RETAINER ARRANGEMENT FOR MECHANICAL SEAL | 5,551,708 | 1996 |
| Flowserve Management Company | ENCLOSURE FOR BRITTLE MECHANICAL SEAL FACE MATERIALS | 5,556,110 | 1996 |
| Flowserve Management Company | FACE SEAL WITH ANGLED GROOVES AND SHALLOW ANNULAR GROOVE | 5,556,111 | 1996 |
| Flowserve Management Company | MECHANICAL SEAL WITH SPRING DRIVE | 5,558,342 | 1996 |
| Flowserve Management Company | MECHANICAL SEAL WITH SPRING DRIVE | 2,305,982 | |
| Flowserve Management Company | SECONDARY SEAL FOR NON-CONTACTING FACE SEAL ASSEMBLY | 5,560,622 | 1996 |
| Flowserve Management | BACK UP SEAL FOR SEALING BETWEEN A SHAFT | 5,562,294 | 1996 |

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|---|---|---|---|
| Company | AND HOUSING | | |





| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | PUMP BOX WITH REPLACABLE EROSION PROTECTOR | 5,630,699 | 1997 |
| Flowserve Management Company | VALVE TRIM | 5,732,738 | 1998 |
| Flowserve Management Company | GUIDED GATE VALVE | 5,704,594 | 1998 |
| Flowserve Management Company | DIAMETRIC PLANE SPLIT MECHANICAL FACE SEAL | 5,716,054 | 1998 |
| Flowserve Management Company | FACE SEAL WITH ANGLED GROOVES AND SHALLOW ANNULAR GROOVE | 5,702,110 | 1997 |
| Flowserve Management Company | MECHANICAL SEAL WITH CONTROLLER FOR REGULATING FACE CONTACT PRESSURE | 5,762,342 | 1998 |
| Flowserve Management Company | SPIRAL GROOVE FACE SEAL | 5,722,665 | 1998 |
| Flowserve Management Company | MECHANICAL SEAL FOR WATER PUMP OF HEAVY DUTY VEHICLE | 5,797,602 | 1998 |
| Flowserve Management Company | GREASE SEAL | 5,803,463 | 1998 |
| Flowserve Management Company | GUIDED GATE VALVE | 5,820,106 | 1998 |
| Flowserve Management Company | METHOD FOR FORMING A WAVY FACE RING | 5,833,518 | 1998 |
| Flowserve Management Company | GUIDED GATE VALVE | 5,836,569 | 1998 |
| Flowserve Management Company | HEAT EXCHANGER BAFFLE DESIGN | 5,845,704 | 1999 |
| Flowserve Management Company | DOUBLE GAS SEAL WITH BELLOWS SUPPORTED BY BACKING AND SUPPORT RINGS | 5,924,697 | 1999 |
| Flowserve Management Company | DOUBLE GAS SEAL HAVING AN IMPROVED BELLOWS ARRANGEMENT | 5,941,531 | 1999 |
| Flowserve Management Company | WAVY FACE RING | 5,947,481 | 1999 |





| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Flowserve Management Company | SPLIT MECHANICAL FACE SEAL AND METHOD OF ASSEMBLY THEREOF | 5,961,122 | 1999 |
| Flowserve Management | HYBRID FLOATING BRUSH SEAL | 5,997,004 | 1999 |

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|---|---|---|---|
| Company | | | |
| Flowserve FCD Corporation | VALVE POSITIONER HAVING ADJUSTABLE GAIN | 5345856 | 9/13/1994 |
| Flowserve FCD Corporation | LOCKOUT MODULES | 5116018<br>5236172 | 5/26/1992<br>8/17/1993 |
| Flowserve FCD Corporation | FLUID VALVES | 5566923<br>5386967 | 10/22/1996<br>2/7/1995 |
| Flowserve FCD Corporation | INNER-LOOP VALVE SPOOL POSITIONING CONTROL APPARATUS | 5884894 | 3/23/1999 |
| Flowserve FCD Corporation | UNITARY FLUID FLOW PRODUCTION AND CONTROL SYSTEM | 5307288 | 4/26/1994 |
| Flowserve FCD Corporation | INTEGRATED PROCESS CONTROL VALVE | 5251148 | 10/5/1993 |
| Flowserve FCD Corporation | PNUMATIC VALVE POSITIONER WITH ADJUSTABLE GAIN | 5974945 | 11/2/1999 |
| Flowserve FCD Corporation | FLUID PRESSURE MODULATOR | 5282489 | 2/1/1994 |
| Flowserve FCD Corporation | ANTI-CAVITATION LOW-NOISE CONTROL VALVE CAGE TRIM FOR HIGH PRESSURE REDUCING SERVICE IN LIQUID OR GASEOUS FLOW | 4567915 | 2/4/1986 |
| Flowserve RED Corporation | NONE | | |
| Flowserve FSD Corporation | NONE | | |
| Flowserve International, Inc. | NONE | | |
| BW/IP - New Mexico, Inc. | NONE | | |
| Flowserve International, LLC | NONE | | |
| Durametallic Australia Holding Company | NONE | | |
| Flowserve Finance B.V. | NONE | | |
| Flowserve International Limited | NONE | | |



A. FLOWSERVE PATENTS

2. U.S. PATENT APPLICATIONS

| GRANTOR | PATENT NAME | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|
| Flowserve Management Company | SHAFT GUARD | Pending | -- |
| Flowserve Management Company | HERMATICALLY SEALED PUMP WITH NON-WETTED MOTOR | Pending | -- |

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|---|---|---|---|
| Flowserve Management Company | PUMP ASSEMBLY INCLUDING INTEGRATED ADAPTER | Pending | -- |
| Flowserve RED Corporation | NONE | | |
| Flowserve FSD Corporation | NONE | | |
| Flowserve International, Inc. | NONE | | |
| BW/IP - New Mexico, Inc. | NONE | | |
| Flowserve International, LLC | NONE | | |
| Durametallic Australia Holding Company | NONE | | |
| Flowserve Finance B.V. | NONE | | |
| Flowserve International Limited | NONE | | |





A. FLOWSERVE PATENTS

3. NON-U.S. PATENT REGISTRATIONS

| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management Company | METHOD FOR INDUCTION MELTING REACTIVE METALS AND ALLOYS | Australia<br>Canada<br>Japan | 608785<br>1329990<br>2128541 | 4/18/1991<br>6/7/1994<br>4/25/1997 |
| Flowserve Management Company | PTFE LINED BEARING GUIDE | Canada | 1185306 | 4/9/1985 |
| Flowserve Management Company | METHOD OF APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | Australia | 659607 | 6/14/1995 |
| Flowserve Management Company | MECHANICAL SEAL WITH IMPROVED FACE RING MOUNTING. | Canada | 1,150,744 | |
| Flowserve Management Company | CABLE GUIDE FOR A TUBULAR ANODE | Canada | 1,151,592 | |
| Flowserve Management Company | THRUST BEARING ARRANGEMENT | Australia<br>Canada<br>France<br>Germany<br>Holland<br>Japan<br>Switzerland<br>UK | 542077<br>1,177,511<br>82/06671<br>DE3212985<br>189.424<br>1,545,335<br>660,063<br>2,097,069 | |
| Flowserve Management Company | BACK-UP MECHANICAL SEAL | Canada<br>Jap | 1629982 | |
| Flowserve | MECHANICAL SEALS FOR USE WITH | Australia | 59595 | |

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|---|---|---|---|
| Management Company | SLURRY PUMPS | Australia | 571185 |
| | | Canada | 1,245,684 |
| | | Chile | 4334.411 |
| | | European (FR, GB, DE & NL) | 0 120 158 |
| | | Finland | 75,910 |
| | | Finland | 78,540 |
| | | Finland | 79,174 |
| | | Finland | 78,539 |
| | | Japan | 1667198 |
| | | Japan | 1634296 |
| | | Japan | 1736046 |
| | | South Africa | 83/6670 |
| | | Spain | 527.055 |
| | | Spain | 529.137 |



| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management Company | IMPROVED MECHANICAL SEAL | Canada | 1,193,629 | |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL ASSEMBLY | Canada | 1179700 | |
| | | European (FR, DE, NL & GB) | 0079116 | |
| | | Japan | 1937277 | |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY | Canada | 1,214,479 | |
| | | European (FR, DE, GB, IT & SE) | 0 086 561 | |
| | | Japan | 1751474 | |
| Flowserve Management Company | PUMP-MECHANICAL SEAL CONSTRUCTION WITH AXIAL ADJUSTMENT MEANS | Australian | 571306 | |
| | | Canada | 1,262,741 | |
| | | Chile | 35,365 | |
| | | European (FR, IT, NL, GB, & DE) | 0 164 177 | |
| | | Finland | 79,897 | |
| | | Japan | 1,858,616 | |
| | | South Africa | 85/0651 | |
| | | Spain | 540.004 | |
| Flowserve Management Company | MECHANICAL SEAL WITH CYLINDRICAL BALANCE SLEEVE | Canada South | 1,244,848 | |
| | | Korea | 52236 | |
| | | Spain | 536.339 | |
| Flowserve Management Company | HYDRAULIC PROXIMITY PROBE | Australia | 574,394 | |
| | | Canada | 1212439 | |
| Flowserve Management Company | SHAFT SEAL | Canada | 1,244,849 | |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY WITH COOLANT CIRCULATION STRUCTURE | Australia | 577,241 | |
| | | Canada | 1,266,689 | |
| | | India | 164,831 | |
| | | Mexico | 163,522 | |
| | | South Korea | 29998 | |
| | | Venezuela | 47.826 | |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY WITH INTEGRAL PUMPING DEVICE | Canada | 1,181,779 | |

| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management Company | IMPROVED MECHANICAL SEAL | Argentina | 233.760 | |
| | | Australia | 566210 | |
| | | Australia | 574828 | |
| | | Canada | 1,245,685 | |
| | | Canada | 1,257,308 | |
| | | European- (FR, NL, CH, GB & DE) | 0 134 068 | |
| | | European- (FR, NL, CH, GB & DE) | 0 177 161 | |
| | | Japan | 818323 | |
| | | South Korea | 48362 | |
| | | Spain | 532.612 | |
| | | Spain | 543.022 | |
| Flowserve Management Company | PUMP IMPROVEMENT | Germany | DE3337839 | |
| | | Japan | Japan | |
| Flowserve Management Company | ADJUSTABLE STATOR MECHANISM FOR HIGH PRESSURE RADIAL TURBINES AND THE LIKE | Australia | 575434 | |
| | | Canada | 1,209,049 | |
| | | European (FR, NL, CH, GB & DE) | 0179 580 | |
| Flowserve Management Company | MECHANICAL SEAL WITH AUTOMATIC GAP CONVERGENCE CONTROL | UK | | |
| | | Germany | | |
| | | Japan | | |
| Flowserve Management Company | CARTRIDGE TYPE ROTARY SHORT SEAL WITH BEARING AND BELLOWS | Canada | 1,219,887 | |
| Flowserve Management Company | IMPROVED MECHANICAL SEAL FOR PUMPS AND METHOD OF FABRICATING SAME | Australia | 589205 | |
| | | Canada | 1,325,648 | |
| | | European (FR, IT, NL, GB & DE) | 0 213 888 | |
| | | | 162197 | |
| | | Japan | 48,575 | |
| | | Venezuela | | |
| Flowserve Management Company | HYDROSTATIC BEARING FOR PUMPS AND THE LIKE | Canada | 1245508 | |
| | | European (FR, NL, SE, CH, GB & DE) | 0163434 | |
| Flowserve Management Company | PUMP CONSTRUCTION | Canada | 1235606 | |
| | | Italy | 1175589 | |
| | | Spain | 535.437 | |



| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management | ADAPTIVE CONTROL SYSTEM FOR MECHANICAL SEAL ASSEMBLY | Argentina | 241,549 | |
| | | Australia | 580191 | |

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|---|---|---|---|
| Company | | Canada | 1,282,476 |
| | | China | 86106617 |
| | | European (FR, DE, GB, NL, IT, CH & ES) | 0 220 531 |
| | | Finland | 85620 |
| | | India | 167,664 |
| | | Israel | P/80053 |
| | | Japan | 178535 |
| | | South Africa | 86/7396 |
| | | South Korea | 75164 |
| Flowserve Management Company | IMPROVER MECHANICAL SEAL FOR PUMPS | Australia | 57720 |
| | | Canada | 1,335,112 |
| | | France | 86 10016 |
| Flowserve Management Company | FLUID FLOW CONTROL MEANS FOR PUMPS AND THE LIKE | Canada | 1,255,152 |
| | | (European (FR, DE, GB, NL, SE & CH) | 0 244 082 |
| Flowserve Management Company | BEARING PROTECTOR | Brazil | P18801288 |
| | | Canada | 1,281,757 |
| | | India | 168269 |
| | | Mexico | 166,30 |
| Flowserve Management Company | BELLOWS MECHANICAL SEAL WITH INACTIVE DIAPHRAGMS | Argentina | 239.145 |
| | | Australia | 603426 |
| | | Canada | 1,295,642 |
| | | Europe (DE, NL, IT, ES & GB) | 0 312 184 |
| Flowserve Management Company | PUMP WITH HEAT EXCHANGER | Canada | 1,332,035 |
| | | Canada | 1,319,564 |
| | | Canada | 1,332, 034 |
| | | European | 0 283 292 |
| | | France | FR283292 |
| | | Germany | P3872903.2 |
| | | Japan | 1873188 |
| | | Netherlands | NL283292 |
| | | Spain | ES283292 |
| | | Switzerland | CH283292 |
| | | United Kingdom | GB283292 |
| Flowserve Management Company | MAGNETIC SEAL ASSEMBLY | Canada | 1,319,715 |
| | | India | 169679 |
| | | Mexico | 172056 |
| | | South Korea | 55753 |
| Flowserve Management Company | MECHANICAL SEAL LUBRICATION IMPROVEMENT | Canada | |



| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management Company | PUMP HOUSING, MOULD PARTS OF A MOULD WALL FOR A PUMP HOUSING AND METHOD OF MANUFACTURING A PUMP HOUSING | Australia | 563,613 | |
| | | Austria | 010128B2 | |
| | | Canada | 1,221,877 | |
| | | Belgium | 563,613 | |
| | | EPO | 0101628B2 | |
| | | Germany | 0101628B2 | |
| | | Great Britain | 0101628B2 | |
| | | France | 0101628B2 | |
| | | Holland | 0101628B2 | |
| | | Italy | 0101628B2 | |
| | | Japan | 16.17.833 | |
| | | Luxembourg | 0101628B2 | |

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|---|---|---|---|---|
| | | Sweden | 0101628B2 | |
| | | Switzerland | 0101626B2 | |
| Flowserve Management Company | BELLOWS SEAL WITH VIBRATION DAMPER | Argentina | 243,657 | |
| | | Australia | 620005 | |
| | | Brazil | P19000187 | |
| | | Mexico | 167641 | |
| | | India | | |
| | | South Korea | | |
| Flowserve Management Company | FILTER LEAF | Canadian | 1,304,007 | |
| Flowserve Management Company | MECHANICAL SEAL ASSEMBLY | Australia | 610397 | |
| | | Brazil | PI89023781 | |
| | | Canada | 1312345 | |
| | | Columbia | 23758 | |
| | | European | 0 345 944 | |
| | | Malaysia | MY-104440A | |
| | | South Africa | 89/3818 | |
| | | Japan | | |
| Flowserve Management Company | HOUSING SEAL CHAMBER BODY | Canada | 2,020,421 | |
| Flowserve Management Company | MECHANICAL SEAL | Belgium | 0 446 531 | |
| | | European | 0 446 531 | |
| | | France | 0 446 531 | |
| | | Germany | P69025168.8-08 | |
| | | Spain | 0 446 531 | |
| | | Switzerland | 0 446 531 | |
| | | Japan | | |
| Flowserve Management Company | PUMP WITH SEAL PURGE HEATER | European | 0 470 747 | |





| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Flowserve Management Company | IMPROVED EFFICIENCY MULTI-STAGE PUMP | Belgium | | |
| | | UK | | |
| | | France | | |
| | | Germany | | |
| | | Netherlands | | |
| | | Italy | | |
| | | Spain | | |
| | | Switzerland | | |
| Flowserve Management Company | ENCLOSURE FOR BRITTLE MECHANICAL SEAL FACE MATERIALS | Europe | 0 659 251 | |
| | | France | 0 659 251 | |
| Flowserve Management Company | FACE SEAL WITH ANGLED GROOVES AND SHALLOW ANNULAR GROOVE | Australia | 685,502 | |
| Flowserve Management Company | MECHANICAL SEAL WITH SPRING DRIVE | UK | 2,305,982 | |
| Flowserve FCD Corporation | INNER-LOOP VALVE SPOOL POSITIONING CONTROL APPARATUS | EP | Published | -- |
| Flowserve FCD Corporation | INTEGRATED PROCESS CONTROL VALVE | Australia | 653151 | 6/17/1999 |
| | | Brazil | Appealed | -- |
| | | Canada | Allowed | -- |

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|---|---|---|---|---|
| | | Japan | 2772159 | 4/17/1998 |
| | | France (EP) | 0462432 | 12/9/1998 |
| | | DE (EP) | 69130592.7 | 12/9/1998 |
| | | GB (EP) | 0462432 | 12/9/1998 |
| | | Italy (EP) | 0462432 | 12/9/1998 |
| | | NL (EP) | 0462432 | 12/9/1998 |
| Flowserve FCD Corporation | ANTI-CAVITATION LOW-NOISE CONTROL VALVE CAGE TRIM FOR HIGH PRESSURE REDUCING SERVICE IN LIQUID OR GASEOUS FLOW | Brazil | PI8505165 | 9/25/1990 |
| | | France (EP) | 0174340 | 5/31/1989 |
| | | DE (EP) | P3570722.4 | 5/31/1989 |
| | | GB (EP) | 01743402.4 | 5/31/1989 |
| | | Japan | 1780112 | 8/13/1993 |
| | | Germany | 0174340 | |
| | | Australia | 568,054 | |
| | | Canada | 1,237,634 | |
| | | Italy | 1,214,484 | |
| Flowserve RED Corporation | NONE | | | |
| Flowserve FSD Corporation | NONE | | | |
| Flowserve International, Inc. | NONE | | | |
| BW/IP - New Mexico, Inc. | NONE | | | |
| Flowserve International, LLC | NONE | | | |



| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Durametallic Australia Holding Company | NONE | | | |
| Flowserve Finance B.V. | NONE | | | |
| Flowserve International Limited | NONE | | | |



A. FLOWSERVE PATENTS

4. NON-U.S. PATENT APPLICATIONS

| GRANTOR | PATENT NAME | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Flowserve Management Company | METHOD OF APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | Canada<br>Japan | Pending<br>Pending | --<br>-- |
| Flowserve Management Company | FRICTION WELDING APPARATUS | Canada<br>IN | Pending<br>Pending | --<br>-- |
| Flowserve RED Corporation | NONE | | | |
| Flowserve FSD Corporation | NONE | | | |
| Flowserve International, Inc. | NONE | | | |
| BW/IP - New Mexico, Inc. | NONE | | | |
| Flowserve International, LLC | NONE | | | |
| Durametallic Australia Holding Company | NONE | | | |
| Flowserve Finance B.V. | NONE | | | |
| Flowserve International Limited | NONE | | | |



B. INVATEC PATENTS

1. U.S. PATENT REGISTRATIONS

| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| The Safe Seal Company, Inc. | FRICTION WELDING APPARATUS (Apparatus) | 5,558,265 | 2/4/94 |
| The Safe Seal Company, Inc. | FRICTION WELDING APPARATUS (Method) | 5,735,447 | 9/23/96 |
| The Safe Seal Company, Inc. | METHOD AND APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | 5,062,439 | 6/14/90 |
| The Safe Seal Company, Inc | METHOD AND APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | 5,052,427<br>RE 35116 | 9/20/90 |
| Innovative Valve Technologies, Inc. | NONE | | |
| Plant Maintenance, Inc. | NONE | | |
| Varco Valve, Inc. | NONE | | |
| Colonial Equipment & | NONE | | |

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|---|---|
| Service Co., Inc. | |
| CECORP, Inc. | NONE |
| DIVT Acquisition-Delaware, LLC | NONE |
| DIVT Subsidiary, LLC | NONE |
| Southern Valve Service, Inc. | NONE |
| L.T. Koppl Industries | NONE |
| Harley Industries, Inc. | NONE |
| Koppl Company of Arizona | NONE |
| Seeley & Jones, Incorporated | NONE |
| GSV, Inc. | NONE |
| IPSCO-Florida, Inc. | NONE |
| International Piping Sevices Company | NONE |
| Cypress Industries, Inc. | NONE |
| DALCO, LLC | NONE |
| Plant Specialties, Inc. | NONE |
| Energy Maintenance, Inc. | NONE |



| GRANTOR | PATENT NAME | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Preventive Maintenance, Inc. | NONE | | |
| Production Machine Incorporated | NONE | | |
| ICE Liquidating, Inc. | NONE | | |
| Valve Repair of South Carolina, Inc. | NONE | | |
| Flickinger-Benicia Inc. | NONE | | |
| Puget Investments, Inc. | NONE | | |
| Steam Supply & Rubber Co., Inc. | NONE | | |
| Flickinger Company | NONE | | |
| Boyden Inc. | NONE | | |
| Valve Actuation & Repair Company, Inc. | NONE | | |



B. INVATEC PATENTS

2. U.S. PATENT APPLICATIONS

NONE

3. NON-U.S. PATENT REGISTRATIONS

| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| The Safe Seal Company, Inc. | METHOD AND APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | Australia | 659607 | issue date 6/14/95 |
| | | Europe | EP 053839-B1 | issue date 6/14/96 |
| Innovative Valve Technologies, Inc. | NONE | | | |
| Plant Maintenance, Inc. | NONE | | | |
| Varco Valve, Inc. | NONE | | | |
| Colonial Equipment & Service Co., Inc. | NONE | | | |
| CECORP, Inc. | NONE | | | |
| DIVT Acquisition-Delaware, LLC | NONE | | | |
| DIVT Subsidiary, LLC | NONE | | | |
| Southern Valve Service, Inc. | NONE | | | |
| L.T. Koppl Industries | NONE | | | |
| Harley Industries, Inc. | NONE | | | |
| Koppl Company of Arizona | NONE | | | |
| Seeley & Jones, Incorporated | NONE | | | |
| GSV, Inc. | NONE | | | |
| IPSCO-Florida, Inc. | NONE | | | |
| International Piping Sevices Company | NONE | | | |
| Cypress Industries, Inc. | NONE | | | |
| DALCO, LLC | NONE | | | |

| GRANTOR | PATENT NAME | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Plant Specialties, Inc. | NONE | | | |
| Energy Maintenance, Inc. | NONE | | | |
| Preventive Maintenance, Inc. | NONE | | | |
| Production Machine Incorporated | NONE | | | |
| ICE Liquidating, Inc. | NONE | | | |
| Valve Repair of South Carolina, Inc. | NONE | | | |
| Flickinger-Benicia Inc. | NONE | | | |
| Puget Investments, Inc. | NONE | | | |
| Steam Supply & Rubber Co., Inc. | NONE | | | |
| Flickinger Company | NONE | | | |
| Boyden Inc. | NONE | | | |
| Valve Actuation & Repair Company, Inc. | NONE | | | |



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B. INVATEC PATENTS

4. NON-U.S. PATENT APPLICATIONS

| GRANTOR | PATENT NAME | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| The Safe Seal Company, Inc. | FRICTION WELDING APPARATUS | Canada<br>India | pending<br>pending | 2/3/95<br>2/3/95 |
| The Safe Seal Company, Inc. | METHOD AND APPARATUS TO FACILITATE THE INJECTION OF SEALANT INTO A PRESSURIZED FLUID MEMBER | Japan | pending | 6/14/91 |
| Innovative Valve Technologies, Inc. | NONE | | | |
| Plant Maintenance, Inc. | NONE | | | |
| Varco Valve, Inc. | NONE | | | |
| Colonial Equipment & Service Co., Inc. | NONE | | | |

| | | | | |
|---|---|---|---|---|
| CECORP, Inc. | NONE | | | |
| DIVT Acquisition-Delaware, LLC | NONE | | | |
| DIVT Subsidiary, LLC | NONE | | | |
| Southern Valve Service, Inc. | NONE | | | |
| L.T. Koppl Industries | NONE | | | |
| Harley Industries, Inc. | NONE | | | |
| Koppl Company of Arizona | NONE | | | |
| Seeley & Jones, Incorporated | NONE | | | |
| GSV, Inc. | NONE | | | |
| IPSCO-Florida, Inc. | NONE | | | |
| International Piping Services Company | NONE | | | |
| Cypress Industries, Inc. | NONE | | | |
| DALCO, LLC | NONE | | | |





| GRANTOR | PATENT NAME | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Plant Specialties, Inc. | NONE | | | |
| Energy Maintenance, Inc. | NONE | | | |
| Preventive Maintenance, Inc. | NONE | | | |
| Production Machine Incorporated | NONE | | | |
| ICE Liquidating, Inc. | NONE | | | |
| Valve Repair of South Carolina, Inc. | NONE | | | |
| Flickinger-Benicia Inc. | NONE | | | |
| Puget Investments, Inc. | NONE | | | |
| Steam Supply & Rubber Co., Inc. | NONE | | | |

| | |
|---|---|
| Flickinger Company | NONE |
| Boyden Inc. | NONE |
| Valve Actuation & Repair Company, Inc. | NONE |



C. IDP PATENTS

1. U.S. PATENT REGISTRATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | PATENT | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Ingersoll-Dresser Pump Company | IMPELLAR FOR CENTRIFUGAL PUMPS | 2068854 5192193 | 3/9/1993 |
| Ingersoll-Dresser Pump Company | MAGNETICALLY COUPLED CENTRIFUGAL PUMP WITH IMPROVED COOLING AND LUBRICATION | 5248245 | 9/28/1993 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH MONOLITHIC DIFFUSER AND RETURN VANE CHANNEL RING MEMBER | 5344285 | 9/6/1994 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH RESILIENTLY BIASING DIFFUSER | 5456577 | 10/10/1995 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | 5385445 | 1/31/1995 |
| Ingersoll-Dresser Pump Company | BUSHING | 357030 | 4/14/1995 |
| Ingersoll-Dresser Pump Company | CAVITATION RESISTANT FLUID IMPELLERS AND METHOD FOR MAKING SAME | 5514329 | 5/7/1996 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | 5871332 | 2/16/1999 |
| Ingersoll-Dresser Pump Company | FLUID JET DECOKING TOOL | 5816505 | 10/6/1998 |
| Ingersoll-Dresser Pump Company | OPEN BOWL FOR A VERTICAL TURBINE PUMP | ALLOWED 5993153 | 11/30/1999 |

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| GRANTOR | PATENT | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| Ingersoll-Dresser Pump Company | CONSTANT FLOW CASCADE LUBRICATION SYSTEM | 5779005 | 7/14/1998 |
| Ingersoll-Dresser Pump Company | FRONT- REMOVABLE BEARING HOUSING FOR VERTICAL TURBINE PUMP | 5944482 | 8/31/1999 |
| Ingersoll-Dresser Pump Company | MULTI-STAGE VERTICAL TURBINE PUMP WITH COMMINUTION | ALLOWED | |
| Ingersoll-Dresser Pump Company | ROTO-DYNAMIC PUMP WITH BACKFLOW RECIRCULATOR | 4375937 | 3/8/1983 |
| Ingersoll-Dresser Pump Company | PUMPING APPARATUS | 4557669 | 12/10/1985 |
| Ingersoll-Dresser Pump Company | PUMPING SYSTEM | 4570833 | 2/18/1986 |
| Ingersoll-Dresser Pump Company | PUMP WITH REPLACEABLE CARTRIDGE | 4614481 | 9/30/1986 |
| Ingersoll-Dresser Pump Company | PUMPING SYSTEM WITH CONTROL VALVE | 4685592 | 8/11/1987 |
| Ingersoll-Dresser Pump Company | RETURNABLE CONTAINER SYSTEM | 4804109 | 2/14/1989 |
| Ingersoll-Dresser Pump Company | DETACHABLE CHEMICAL SPRAYER | 4826083 | 5/2/1989 |
| Ingersoll-Dresser Pump Company | QUICK AND DRY COUPLING | 4986304<br>5168897<br>5092363 | 1/22/1991<br>12/8/1992<br>3/3/1992 |
| Ingersoll-Dresser Pump Company | JOURNAL BEARING RETAINER SYSTEM WITH ECCENTRIC LOCK | 5683185 | 11/4/1997 |
| Ingersoll-Dresser Pump Company | TAMPER EVIDENT VENT SYSTEM FOR CONTAINERS | 5160054 | 11/3/1992 |
| Ingersoll- Dresser Pump Company | COMPACT INTERBOWL ASSEMBLY COUPLED FOR VERTICAL | 5921750 | 7/13/1999 |

| GRANTOR | PATENT | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| | TURBINE PUMPS | | |
| Ingersoll-Dresser Pump Company | FITTING FOR EMPTYING A CONTAINER | 5186365 | 2/16/1993 |
| Ingersoll-Dresser Pump Company | SEAL ENGAGING RING | 5184747<br>354681<br>358988 | 2/9/1993 |
| Ingersoll-Dresser Pump Company | SEALLESS PUMP CORROSION DETECTOR | 5297940 | 3/29/1994 |
| Ingersoll-Dresser Pump Company | MAGNETICALLY COUPLED CENTRIFUGAL PUMP | 5269664 | 12/14/1993 |
| Ingersoll-Dresser Pump Company | PUMP W/FAILURE RESPONSIVE DISCHARGE VALVE | 5366351<br>5450987 | 11/12/1994<br>9/19/1995 |
| Ingersoll-Dresser Pump Company | SYSTEM FOR DISPENSING DRY AGRICULTURAL CHEMICALS | 5638285 | 6/10/1997 |
| Ingersoll-Dresser Pump Company | METHOD FOR DISPENSING DRY GRANULAR MATERIALS | 5737221 | 4/7/1998 |
| Ingersoll-Dresser Pump Company | METERING DEVICE FOR GRANULAR MATERIALS | 5524794 | 6/11/1996 |
| Ingersoll-Dresser Pump Company | POWER SEQUENCING METHOD FOR ELECTRO-MECHANICAL DISPENSING DEVICE | 5539669 | 7/23/1996 |
| Ingersoll-Dresser Pump Company | ENCAPSULATED MAGNET CARRIER | 5831364 | 11/3/1998 |
| Ingersoll-Dresser Pump Company | METHOD FOR MAKING AN ENCAPSULATED MAGNET CARRIER | 5964028 | 10/12/1999 |
| Ingersoll-Dresser Pump Company | BEARING AND SEAL PERCOLATOR FOR A CENTRIFUGAL PUMP | 5667357 | 9/16/1997 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | | |
| Ingersoll-Dresser Pump Company | PUMP IMPELLER HAVING SEPARATE OFFSET INLET | 5605444 | 2/25/1997 |

| GRANTOR | PATENT | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|
| | VANES | | |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH AN AXIAL-FIELD INTEGRAL MOTOR COOLED BY WORKING FLUID | 6012909 | 1/11/2000 |
| Ingersoll-Dresser Pump COMPANY | SYSTEM FOR TRANSPORTING AND DISPENSING GRANULAR MATERIALS (2385-ID-IP and 2450-ID0IP WERE COMBINED INTO THIS DOCKET) | 5641011 | 6/24/1999 |
| Ingersoll-Dresser Pump Company | DIAPHRAGM FOR SEAL-LESS INTEGRAL-MOTOR PUMP (PIERCEY FROM KAMAN ELECTRO-MAGNETICS HUSON, MA) | 5951267 | 9/14/1999 |
| Ingersoll-Dresser Pump Company | POLYMER-BACKED THRUST BEARINGS | 6024494 | |
| Ingersoll-Dresser Pump Company | TRANSFER VALVE FOR A GRANULAR MATERIALS DISPENSING SYSTEM | 5687782 | 11/18/1997 |
| Ingersoll-Dresser Pump Company | INTEGRAL CLOSE COUPLING FOR A ROTARY GEAR PUMP | 5788473 | 8/4/1998 |
| Ingersoll-Dresser Pump Company | BUTTONS FOR PRODUCT LUBRICATED THRUST BEARINGS | 5927860 | 7/27/1999 |
| Ingersoll-Dresser Pump Company | COLUMN INSERT BEARING HOUSING | 4391475 | 7/15/1983 |
| Ingersoll-Dresser Pump Company | FIBER-FILLED POLYMER IMPELLER | 4767277 | 8/30/1998 |
| Ingersoll-Dresser Pump Company | LUBRICATION DEVICE | 4466508 | 8/21/1984 |
| Ingersoll-Dresser Pump | HIGH SPEED CENTRIFUGAL PUMP | 4389160 | 6/21/1983 |





| GRANTOR | PATENT | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Company | AND METHOD FOR OPERATING SAMEAT AT REDUCED NOISE LEVELS | | |
| Ingersoll-Dresser Pump Company | DECOKING TOOL | 4738399 | 4/19/1988 |
| Ingersoll- Dresser Pump Company | SINGLE ACTING PUMP WITH DOUBLE ACTING DRIVE | 4762051 | 8/9/1998 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH INTEGRAL SUCTION VALVE | 4818177 | 4/4/1989 |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH AN AXIAL-FIELD INTEGRAL MOTOR COOLED BY WORKING FLUID | 6012909 | 1/11/2000 |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |



C. IDP PATENTS

2. U.S. PATENT APPLICATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | PATENT | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|
| Ingersoll-Dresser Pump Company | FORCED CLOSED-LOOP COOLING FOR A SUBMERSIBLE PUMP MOTOR | PENDING | |
| Ingersoll-Dresser Pump Company | SEAL LESS INTEGRAL-MOTOR PUMP WITH REGENERATIVE IMPELLER DISK | PENDING | |
| Ingersoll-Dresser Pump Company | COMPACT SEAL-LESS SCREW PUMP | PENDING | |
| Ingersoll-Dresser Pump Company | SEALLESS MULTIPHASE SCREW PUMP-AND-MOTOR PACKAGE | PENDING | |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |

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C. IDP PATENTS

3. NON- U.S. PATENT REGISTRATIONS

(AllIngersoll-Dresser Pump Company Intellectual Property assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | PATENT TITLE | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | AU | 617505 | |
| | | CA | 1308959 | |
| | | DE | 3925890 | |
| | | FR | 89/10674 | |
| | | GB | 2222207 | |
| | | IT | 1231299 | |
| | | JP | 2097093 | |
| Ingersoll-Dresser Pump Company | INTEGRAL MOTOR-PUMP | AU | 651399 | |
| | | DE | 69105211.5 | |
| | | EP | 0551435 | |
| | | FR | 0551435 | |
| | | GB | 0551435 | |
| | | IT | 0551435 | |
| | | JP | 2546943 | |
| | | KR | 171871 | |
| | | WO | NATIONAL | |
| Ingersoll-Dresser Pump Company | IMPELLAR FOR CENTRIFUGAL PUMPS | CN | 92104767.3 | |
| | | GB | 2256901 | |
| | | KR | 114513 | |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH MONOLITHIC DIFFUSER AND RETURN VANE CHANNEL RING MEMBER | CH | 689400 | |
| | | GB | 2283059 | |
| Ingersoll-Dresser Pump Company | CAVITATION RESISTANT FLUID IMPELLERS AND METHOD FOR MAKING SAME | AU | 683389 | |
| | | CN | 95193829.0 | |
| | | DE | 69502609.7 | |
| | | EP | 0769077 | |
| | | ES | 0769077 | |
| | | FR | 0769077 | |
| | | GB | 0769077 | |
| | | IT | 0769077 | |
| | | MX | 190354 | |
| | | NL | 0769077 | |
| | | 'IW | NI-077754 | |
| | | WO | NATIONAL | |
| | | ZA | 95/5296 | |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | GB | 2290113 | |
| | | IT | 1275286 | |

| GRANTOR | PATENT TITLE | COUNTRY | PATENT NUMBER | ISSUE DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | FLUID JET DECOKING TOOL | WO | NATIONAL | |
| | QUICK AND DRY COUPLING | JP | 2701088 | |
| Ingersoll-Dresser Pump Company | TAMPER EVIDENT VENT SYSTEM FOR CONTAINERS | JP WO | 2811370 NATIONAL | |
| Ingersoll-Dresser Pump Company | BEARING AND SEAL PERCOLATOR FOR A CENTRIFUGAL PUMP | GB | 2310690 | |
| Ingersoll-Dresser Pump Company | PUMP IMPELLER HAVING SEPARATE OFFSET INLET VANES | AU<br>TW<br>WO | 712130<br>NI-097639<br>NATIONAL | |
| Ingersoll-Dresser Pump Company | SYSTEM FOR TRANSPORTING AND DISPENSING GRANULAR MATERIALS (2385-ID-IP AND 2450-ID0IP WERE COMBINED INTO THIS DOCKET) | WO | NATIONAL | |
| Ingersoll-Dresser Pump Company | LUBE OIL RING PUMP | CA | 1237679 | |
| Ingersoll-Dresser Pump Company | HIGH PRESSURE RECIPROCATING PUMP | EP<br>WO | 0378645<br>NATIONAL | |
| IDP Alternate Energy Company | NONE | | | |
| Energy Hydro, Inc. | NONE | | | |
| Pump Investments, Inc. | NONE | | | |





C. IDP PATENTS

4. NON- U.S. PATENT APPLICATIONS

(All Ingersoll-Dresser Pump Company Intellectual Property to be assigned to Flowserve Management Company immediately after Closing).

| GRANTOR | PATENT TITLE | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump | CENTRIFUGAL PUMP WITH | DE<br>JP | PENDING<br>PENDING | |

| | | | |
|---|---|---|---|
| Company | MONOLITHIC DIFFUSER AND RETURN VANE CHANNEL RING MEMBER | | |
| Ingersoll-Dresser Pump Company | CAVITATION RESISTANT FLUID IMPELLERS AND METHOD FOR MAKING SAME | CA<br>IN<br>KR | PENDING<br>PENDING<br>PENDING |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP | CA<br>DE<br>JP | PENDING<br>PENDING<br>PENDING |
| Ingersoll-Dresser Pump Company | FLUID JET DECOKING TOOL | CA<br>EP<br>IN<br>JP<br>MX<br>TW<br>VE | PENDING<br>PUBLISHED<br>PENDING<br>PENDING<br>PENDING<br>PENDING<br>PENDING |
| Ingersoll-Dresser Pump Company | DIVERTER VALVE WITEI CUT-OFF AND BLEED FUNCTIONS | JP<br>MX<br>NL | PENDING<br>PENDING<br>PENDING |
| Ingersoll-Dresser Pump Company | OPEN BOWL FOR A VERTICAL TURBINE PUMP | JP<br>MS<br>NL<br>CA<br>EG<br>TH | PENDING<br>PENDING<br>PENDING<br>PENDING<br>PENDING<br>PENDING |
| Ingersoll-Dresser Pump Company | CONSTANT FLOW CASCADE LUBRICATION | BR<br>CA<br>CN<br>EP<br>IN | PENDING<br>PENDING<br>PENDING<br>PUBLISHED<br>PENDING |
| Ingersoll-Dresser Pump Company | FRONT- REMOVABLE BEARING HOUSING FOR VERTICAL TURBINE PUMP | CA<br>EG<br>TH | PENDING<br>PENDING<br>PENDING |



| GRANTOR | PATENT TITLE | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | FORCED CLOSED-LOOP COOLING FOR A SUBMERSIBLE PUMP MOTOR | BR<br>CA<br>EP<br>JP | PENDING<br>PENDING<br>PENDING<br>PENDING | |
| Ingersoll-Dresser Pump Company | COMPACT INTERBOWL ASSEMBLY COUPLED FOR VERTICAL TURBINE PUMPS | CA | PENDING | |
| Ingersoll-Dresser Pump Company | MAGNETICALLY COUPLED CENTRIFUGAL PUMP | DE<br>JP | PENDING<br>PENDING | |
| Ingersoll-Dresser Pump Company | MATERIAL DISPENSING SYSTEM | CA | PENDING | |

| | | | | |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | POWER SEQUENCING METHOD FOR ELECTRO-MECHANICAL DEVICE | CA | PENDING | |
| Ingersoll-Dresser Pump Company | ENCAPSULATED MAGNET CARRIER | CA<br>GB | PENDING | PENDING |
| Ingersoll-Dresser Pump Company | BEARING AND SEAL PERCOLATOR FOR A CENTRIFUGAL PUMP | CA | PENDING | |
| Ingersoll-Dresser Pump Company | PUMP IMPELLER HAVING SEPARATE OFFSET INLET VANES | CA<br>CN<br>EP | PENDING<br>PUBLISHED<br>PENDING | |
| Ingersoll-Dresser Pump Company | CENTRIFUGAL PUMP WITH AN AXIAL-FIELD INTEGRAL MOTOR COOLED | DE<br>GB<br>JP | PENDING<br>PUBLISHED<br>PENDING | |
| Ingersoll-Dresser Pump Company | SYSTEM FOR TRANSPORTING AND DISPENSING GRANULAR MATERIALS (2385-ID-IP AND 2450-ID0IP WERE COMBINED INTO THIS DOCKET) | JP<br>MX<br>WO | PENDING<br>PENDING<br>NATIONAL | |



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| GRANTOR | PATENT TITLE | COUNTRY | PATENT APPLICATION NUMBER | FILING DATE |
|---|---|---|---|---|
| Ingersoll-Dresser Pump Company | DIAPHRAGM FOR SEAL-LESS INTEGRAL-MOTOR PUMP (PIERCEY FROM KAMAN ELECTRO-MAGNETICS HUSON, MA) | GB | PUBLISHED | |
| Ingersoll-Dresser Pump Company | TRANSFER VALVE FOR A GRANULAR MATERIALS DISPENSING SYSTEM | CA | PENDING | |
| Ingersoll-Dresser Pump Company | INTEGRAL CLOSE COUPLING FOR A ROTARY GEAR PUMP | CA | PENDING | |
| Ingersoll-Dresser Pump Company | BUTTONS FOR PRODUCT LUBRICATED THRUST BEARINGS | GB | PUBLISHED | |
| Ingersoll-Dresser Pump Company | COMPACT SEAL-LESS SCREW PUMP | CA<br>EP<br>VE | PENDING<br>PUBLISHED<br>PENDING | |
| Ingersoll- | CENTRIFUGAL | DE | PENDING | |

| | | | |
|---|---|---|---|
| Dresser Pump Company | PUMP WITH AN AXIAL-FIELD INTEGRAL MOTOR COOLED BY WORKING FLUID | GB<br>JP | PUBLISHED<br>PENDING |
| IDP Alternate Energy Company | NONE | | |
| Energy Hydro, Inc. | NONE | | |
| Pump Investments, Inc. | NONE | | |

EXHIBIT 12.1

FLOWSERVE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Millions, except ratios)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| Earnings to Fixed Charges: | | | | | |
| Pretax earnings (loss) before taxes on income | $ 88.4 | $ 108.4 | $ 89.8 | $ 73.2 | $ 18.2 |
| Adjustments: | | | | | |
| Fixed Charges | 16.7 | 17.1 | 18.3 | 17.3 | 20.4 |
| Capitalized interest | | | | 0.2 | 0.9 |
| Earnings before taxes and fixed charges as adjusted | 105.1 | 125.5 | 108.1 | 90.3 | 37.7 |
| Fixed Charges: | | | | | |
| Interest Expense | 12.3 | 12.1 | 13.3 | 13.2 | 15.5 |
| Capitalized interest | | | | 0.2 | 0.9 |
| Amortization of debt discount | | | | | |
| Amortization of capitalized expenses related to debt | | | | | 0.2 |
| Interest portion of rent | 4.4 | 5.0 | 5.0 | 3.9 | 3.8 |
| Total Fixed Charges | $ 16.7 | $ 17.1 | $ 18.3 | $ 17.3 | $ 20.4 |
| Earnings to Fixed Charges | 6.3 | 7.3 | 5.9 | 5.2 | 1.8 |

| | SIX MONTHS ENDED JUNE 30, 1999 | SIX MONTHS ENDED JUNE 30, 2000 | PRO FORMA DECEMBER 31, 1999 | PRO FORMA SIX MONTHS ENDED JUNE 30,2000 |
|---|---|---|---|---|
| Earnings to Fixed Charges: | | | | |
| Pretax earnings (loss) before taxes on income | $ 28.6 | $ 37.4 | $ (35.4) | $ (7.4) |
| Adjustments: | | | | |
| Fixed Charges | 10.9 | 17.3 | 50.6 | 10.6 |
| Capitalized interest | .5 | 0.5 | .9 | .5 |
| Earnings before taxes and fixed charges as adjusted | 40.0 | 54.2 | 16.1 | 2.7 |
| Fixed Charges: | | | | |
| Interest Expense | 7.2 | 13.6 | 41.1 | 5.8 |
| Capitalized interest | .5 | 0.5 | .9 | .5 |
| Amortization of debt discount | -- | -- | .5 | .3 |
| Amortization of capitalized | | | | |
| expenses related to debt .1 | .1 | 1.9 | .9 | |
| Interest portion of rent | 3.1 | 3.1 | 6.2 | 3.1 |
| Total Fixed Charges | $ 10.9 | $ 17.3 | $ 50.6 | $ 10.6 |
| Earnings to Fixed Charges | 3.6 | 3.1 | .4 | .3 |

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

| NAME | STATE OF INCORPORATION OR ORGANIZATION |
|---|---|
| Flowserve RED Corporation | Delaware |
| Flowserve FSD Corporation | Delaware |
| Flowserve FCD Corporation | Delaware |
| Flowserve International, Inc. | Delaware |
| Flowserve Management Company | Delaware |
| BW/IP-New Mexico, Inc. | Delaware |
| Flowserve International, LLC | Delaware |
| Flowserve Holdings, Inc | Delaware |
| Durametallic Australia Holding Company | Michigan |
| Flowserve International Limited | United Kingdom |
| Innovative Valve Technologies, Inc. | Delaware |
| Plant Maintenance, Inc. | Delaware |
| Varco Valve, Inc. | Delaware |
| Colonial Equipment & Service Co., Inc. | Delaware |
| CECORP, Inc. | Delaware |
| DIVT Acquisition, LLC | Delaware |
| DIVT Subsidiary, LLC | Delaware |
| IPSCO Holding, Inc. | Delaware |
| Southern Valve Service, Inc. | Alabama |
| L.T. Koppl Industries, Inc. | California |
| Koppl Company | California |
| Koppl Industrial Systems, Inc. | California |
| Harley Industries, Inc. | California |
| Koppl Company of Arizona | Arizona |
| Seeley & Jones, Incorporated | Connecticut |
| GSV, Inc. | Florida |
| IPSCO-Florida, Inc. | Florida |
| International Piping Services Company | Illinois |
| Cypress Industries, Inc. | Illinois |
| DALCO, LLC | Kentucky |
| Plant Specialties, Inc. | Louisiana |
| Energy | |
| Maintenance, Inc. | Missouri |
| Preventive Maintenance, Inc. | North Carolina |
| Production Machine Incorporated | Oklahoma |
| ICE Liquidating, Inc. | Pennsylvania |
| Valve Repair of South Carolina, Inc. | South Carolina |
| The Safe Seal Company, Inc. | Texas |
| Flickinger-Benicia Inc. | Washington |
| Puget Investments, Inc. | Washington |
| Steam Supply & Rubber Co., Inc. | Washington |
| Flickinger Company | Washington |
| Boyden Inc. | West Virginia |
| Valve Actuation & Repair Co. | West Virginia |
| Ingersoll-Dresser Pump Company | Delaware |
| IDP Alternate Energy Company | Delaware |
| Energy Hydro, Inc. | Delaware |
| Pump Investments, Inc. | Delaware |

The address, including zip code, and telephone number, including area code, of the principal offices of the subsidiaries of the registrants listed above is: 222 W. Las Colinas Blvd., Suite 1500, Irving, Texas 75039; the telephone number at that address is (972) 443-6500.

EXHIBIT 23.1

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated February 10, 2000 (except Note 15, as to which the date is August 9, 2000, and Note 16, as to which the date is July 14, 2000) in the Registration Statement (Form S-4 No. 33-00000) of Flowserve Corporation for the registration of $290,000,000 of 12-1/4% Senior Subordinated Notes due 2010 of Flowserve Corporation and Euro 100,000,000 of 12-1/4% Senior Subordinated Notes due 2010 of Flowserve Finance B.V.

/s/ Ernst & Young LLP

Dallas, Texas
September 22, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-4 of Flowserve Corporation of our report dated February 18, 2000 except for Note 1 "Acquisition of Halliburton's Interest" and Note 16 for which the dates are September 12, 2000 and June 22, 2000, respectively, relating to the financial statements of Ingersoll-Dresser Pump Company, which appears in such Registration Statement. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Florham Park, NJ
September 25, 2000

EXHIBIT 23.3

# CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report on Innovative Valve Technologies, Inc. for the year ended December 31, 1999, dated March 3, 2000 included in Flowserve Corporation's Form 8-K, and to all references to our firm included in Flowserve Corporation's S-4 Registration Statement.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Houston, Texas
September 22, 2000