FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For Quarter Ended September 30, 2000 Commission File Number 1-13179

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

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

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

222 W. LAS COLINAS BLVD., SUITE 1500, IRVING, TEXAS 75039
(Address of principal executive offices) (Zip Code)

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

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

YES X NO
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SHARES OF COMMON STOCK, $1.25 PAR VALUE,
OUTSTANDING AS OF SEPTEMBER 30, 2000 37,446,306

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999
Sales	$ 412,105	$ 253,973
Cost of sales	281,983	165,658
Gross profit	130,122	88,315
Selling and administrative expense	89,861	69,689
Research, engineering and development expense	6,004	5,905
Integration expense	10,470	2,984
Restructuring expense	17,102	--
Operating income	6,685	9,737
Net interest expense	23,423	3,614
Other expense (income), net	299	(1,238)

Net (loss) earnings before income taxes	(17,037)	7,361
Provision for income taxes	(6,103)	2,503
Net (loss) earnings before extraordinary items	(10,934)	4,858
Extraordinary items, net of tax	2,067	--
Net (loss) earnings	$ (13,001)	$ 4,858
Net (loss) earnings per share (basic and diluted):		
Before extraordinary items	$ (0.29)	$ 0.13
Extraordinary items, net of tax	(0.05)	--
Net (loss) earnings per share	$ (0.34)	$ 0.13
Average shares outstanding	37,824	37,739

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Three Months Ended September 30,	
	2000	1999
Net (loss) earnings	$ (13,001)	$ 4,858
Foreign currency translation adjustments	(23,600)	(4,737)
Comprehensive (loss) income	$ (36,601)	$ 121

See accompanying notes to consolidated financial statement.

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2000	1999
Sales	$ 996,567	$ 798,556
Cost of sales	664,054	519,561
Gross profit	332,513	278,995
Selling and administrative expense	232,079	203,002
Research, engineering and development expense	18,358	19,103
Integration expense	10,470	10,821

Restructuring expense	17,102	--
Operating income	54,504	46,069
Net interest expense	36,312	10,245
Other income, net	(2,174)	(138)
Net earnings before income taxes	20,366	35,962
Provision for income taxes	6,801	12,227
Net earnings before extraordinary items	13,565	23,735
Extraordinary items, net of tax	2,067	--
Net earnings	$ 11,498	$ 23,735
Net earnings per share (basic and diluted):		
Before extraordinary items	$ 0.35	$ 0.63
Extraordinary items, net of tax	(0.05)	--
Net earnings per share	$ 0.30	$ 0.63
Average shares outstanding	37,819	37,844

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Nine Months Ended September 30,	
	2000	1999
Net earnings	$ 11,498	$ 23,735
Foreign currency translation adjustments	(39,803)	(8,615)
Comprehensive (loss) income	$ (28,305)	$ 15,120

See accompanying notes to consolidated financial statement.

FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

	SEPTEMBER 30, 2000 (UNAUDITED)	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 56,825	$ 30,463

Accounts receivable, net	419,026	213,625
Inventories	327,127	168,356
Prepaids and other current assets	56,112	41,344
Total current assets	859,090	453,788
Property, plant and equipment, net	406,283	209,976
Goodwill, net	506,208	90,198
Other intangible assets, net	140,460	6,237
Other assets	134,231	77,952
Total assets	$ 2,046,272	$ 838,151
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 142,051	$ 72,103
Notes payable	298	734
Income taxes	4,722	7,878
Accrued liabilities	237,889	111,820
Long-term debt due within one year	12,000	3,125
Total current liabilities	396,960	195,660
Long-term debt due after one year	1,121,012	198,010
Postretirement benefits and deferred items	249,076	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	66,084	67,963
Retained earnings	355,752	344,254
	473,692	464,073
Treasury stock at cost - 4,038 and 4,071 shares	(92,314)	(93,448)
Accumulated other comprehensive expense	(102,154)	(62,351)
Total shareholders' equity	279,224	308,274
Total liabilities and shareholders' equity	$ 2,046,272	$ 838,151

See accompanying notes to consolidated financial statement.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Nine Months Ended September 30,	
	2000	1999

CASH FLOWS - OPERATING ACTIVITIES:		
Net earnings	$ 11,498	$ 23,735
Adjustments to reconcile net earnings to net cash (used) provided by operating activities:		
Depreciation	25,866	23,482
Amortization	8,544	3,427
Net (gain) loss on the sale of fixed assets	(14)	170
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(11,369)	5,485
Inventories	(20,781)	20,206
Prepaid expenses	11,371	3,088
Other assets	(47,393)	10,335
Accounts payable	(8,045)	(5,814)
Accrued liabilities	(1,190)	(17,183)
Income taxes	(5,784)	(10,092)
Postretirement benefits and deferred items	14,515	(19,909)
Net deferred taxes	8,532	3,331
Net cash flows (used) provided by operating activities	(14,250)	40,261
CASH FLOWS - INVESTING ACTIVITIES:		
Capital expenditures, net of disposals	(16,339)	(28,402)
Payment for acquisitions, net of cash acquired	(786,356)	(6,365)
Net cash flows used by investing activities	(802,695)	(34,767)
CASH FLOWS - FINANCING ACTIVITIES:		
Net (repayments) borrowings under short-term debt	--	(10,684)
Payments on long-term debt including revolving credit facility	(426,706)	(11,404)
Proceeds from long-term debt including revolving credit facility	1,271,753	32,467
Treasury share purchases	--	(5,249)
Other stock activity	637	(1,232)
Dividends paid	--	(15,877)
Net cash flows provided (used) by financing activities	845,684	(11,979)
Effect of exchange rate changes on cash	(2,377)	(526)
Net change in cash and cash equivalents	26,362	(7,011)
Cash and cash equivalents at beginning of year	30,463	24,928
Cash and cash equivalents at end of period	$ 56,825	$ 17,917
Taxes paid	$ 4,344	$ 23,563
Interest paid	$ 19,405	$ 10,985

See accompanying notes to consolidated financial statement.

FLOWSERVE CORPORATION
(UNAUDITED)

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

1. ACCOUNTING POLICIES - BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of September 30, 2000, and the related consolidated statements of income and comprehensive income for the three months and nine months ended September 30, 2000 and 1999, and the statements of cash flows for the nine months ended September 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. Certain amounts in 1999 have been reclassified or restated to conform with the 2000 presentation.

2. INVENTORIES

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

Inventories and the method of determining costs were:

	SEPTEMBER 30, 2000	December 31, 1999
Raw materials	$ 52,371	$ 29,674
Work in process and finished goods	347,045	182,493
Less: Progress billings	(34,381)	(5,746)
	365,035	206,421
LIFO reserve	(37,908)	(38,065)
Net inventory	$ 327,127	$ 168,356
Percent of inventory accounted for by LIFO	30%	64%
Percent of inventory accounted for by FIFO	70%	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 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 adopt SAB 101 in its fourth quarter, retroactive to January 1, 2000. The Company is currently reviewing its revenue recognition policies 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. The Company is currently reviewing its revenue recognition policies under the guidance provided by SAB 101 to determine the impact, if any, on the Company's reported financial position, results of operations or cash flows.

4. ACQUISITIONS

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.

On August 8, 2000, the Company completed the acquisition of Ingersoll-Dresser Pump Company (IDP), a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. The transaction, which was accounted for as a purchase, was financed with a combination of bank financing and senior subordinated notes. Upon closing of the transaction, the existing Flowserve debt was also refinanced. (See Note 6 for information on the debt incurred to finance the acquisition).

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of the acquisition. These allocations include $134.5 million for intangibles and $360.3 million recorded as goodwill.

The purchase price allocation for these acquisitions is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses have been included in the consolidated statements of income from the dates of acquisition.

The table below reflects unaudited pro forma results of the Company, Invatec and IDP as if the acquisitions had taken place at the beginning of fiscal 2000 and 1999.

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2000	1999
Net Sales	$ 1,418,396	$ 1,517,646
Net (loss) earnings before extraordinary items	(26,025)	(13,236)
Net (loss) earnings	(28,092)	(13,236)
Net (loss) earnings per share (basic and diluted)		
Before extraordinary items	$ (0.69)	$ (0.35)
Net (loss) earnings	(0.74)	(0.35)

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.

5. RESTRUCTURING AND ACQUISITION RELATED CHARGES

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to streamline the Company by reducing costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, will result in the reduction of approximately 1,100 positions. The program includes the closure of IDP's former headquarters, a number of pump manufacturing facilities and service and repair centers and the reduction of sales and sales support personnel. The Company estimates that the costs associated with these activities will be approximately $61 million. Approximately $44 million of the total cost relates to the IDP operations acquired and $28 million has been recorded in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $17 million relates to the existing Flowserve operations and has been recorded as restructuring expense.

During the third quarter of 2000, the Company incurred $10.5 million in integration costs in conjunction with this program. As of September 30, 2000, the program had resulted in a net reduction of 170 employees.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(3,508)	(12)	(3,520)
Balance at September 30, 2000	$ 42,472	$ 14,820	$ 57,292

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

In July 2000, the Company announced, as part of its agreement with the Department of Justice to acquire IDP, that it was required to sell a facility which had previously been targeted for closure in the fourth quarter of 1999. This resulted in a non-cash reduction of the existing restructuring liability of $5.3 million. Of this total, $1.3 million was recorded as part of the IDP restructuring reserve and the remaining balance was applied against restructuring expense during the current quarter.

The Company is in the process of selling the facility and certain product lines. Any gain or loss on the sale will be recorded in the period in which a sales agreement is reached.

The restructuring program is expected to result in a net reduction of approximately 280 employees at a cost of $12.9 million. In addition, exit costs associated with the facilities closings are estimated at $3.0 million. As of September 30, 2000, the program had resulted in a net reduction of 199 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)
Balance at June 30, 2000	9,794	1,364	11,158
CASH EXPENDITURES	(1,199)	(336)	(1,535)
NONCASH REDUCTION	(4,364)	(1,028)	(5,392)
BALANCE AT SEPTEMBER 30, 2000	$ 4,231	--	$ 4,231

6. DEBT

In connection with the acquisition of IDP and payoff of the Company's existing debt, on August 8, 2000 the Company entered into a Credit Agreement for senior secured credit facilities which included a $275 million term loan due June 2006, a $475 million term loan due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The term loans bear floating interest rates based on LIBOR (either one, two, three, or six month LIBOR at the Company's discretion) plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. At September 30, 2000, the interest rate on the term loans and revolving credit facility was 9.50%, 10.25% and 9.375%, respectively. The term loans require scheduled principal payments beginning June 30, 2001. All of the senior secured credit facilities are secured by the domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. As of September 30, 2000, $10 million of the revolving credit was drawn and the full amount of the term loans were outstanding.

The scheduled principal payments of the term loans outstanding at September 30, 2000 are summarized as follows: $18 million in 2001, $45 million in 2002, $60 million in 2003, $64 million in 2004, $68 million in 2005, $106.6 million in 2006, $258.7 million in 2007 and $129.7 million in 2008. Beginning in 2002, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Agreement, to reduce the outstanding principal of the term loans.

The revolving credit facility allows the Company to issue up to $200 million in letters of credit. As of September 30, 2000, $14.7 million of letters of credit had been issued under the facility. This, coupled with the $10.0 million in borrowings under the facility, left the Company with $275.3 million remaining in unused borrowing capacity under the revolving credit facility.

The Company also issued 10 year, senior subordinated notes on August 8, 2000 in a US dollar tranche and a Euro tranche. Proceeds of $285.9 million from the dollar tranche, and EUR 98.6 million from the euro tranche were also used in completing the IDP acquisition. The notes were issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal prepayments prior to maturity in August 2010. Interest on the notes is payable semi-annually, with the first payment commencing in February 2001.

The provisions of the Credit Agreement require the Company to meet or exceed specified financial covenants that are defined in the Credit Agreement. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the Credit Agreement and the senior subordinated notes require the Company to contain limitations or restrictions relating to new indebtedness, prepayment of subordinated debt, liens, sale and leaseback transactions, disposition of assets, payment of dividends or other distributions, and capital expenditures, among other things.

On August 8, 2000 the existing five year, $600 million revolving credit agreement was cancelled, and the remaining senior notes issued in 1992 and in 1996 were repaid in full.

As a result of the cancellation of the existing credit agreement and the prepayment of the existing senior notes, the Company recorded extraordinary items charges, net of tax of $1.2 million, of $2.1 million which represents

prepayment penalties on the senior notes and the write-off of deferred financing fees associated with the credit agreement.

7. 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 sub-ordinated notes (the dollar Notes) and euro-denominated senior subordinated notes (the euro Notes) in private placements pursuant to Rule 144A and Regulation S. The dollar Notes and the euro Notes are general unsecured obligations of the Company and Flowserve Finance B.V., respectively, subordinated in right of payment to all existing and future senior indebtedness of the Company and Flowserve Finance B.V., respectively, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly owned domestic subsidiaries and, in the case of the euro Notes, by the Company.

The following condensed consolidating financial information presents:

(1) Condensed consolidating balance sheet as of December 31,1999 and the related statements of income and cash flows for the nine months ended September 30, 1999, of (a) Flowserve Corporation, the parent; (b) the guarantor subsidiaries; (c) the non-guarantor subsidiaries; and the Company on a consolidated basis, and

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

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

subsidiaries.

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

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Sales	$ 118,626	$ --	$ 565,437	$ 374,302	$ (61,798)	$ 996,567
Cost of sales	86,637	--	388,598	250,617	(61,798)	664,054
Gross Profit	31,989	--	176,839	123,685	--	332,513
Selling and administrative expense	35,030	--	124,414	72,635	--	232,079
Research, engineering and development expense	4,321	--	11,328	2,709	--	18,358
Restructuring Expenses	6,846	--	7,649	2,607	--	17,102
Integration expense	4,242	--	5,844	384	--	10,470
Operating income	(18,450)	--	27,604	45,350	--	54,504
Net Interest expense	17,881	1,710	23,958	4,425	(11,662)	36,312
Other (income) expense, net	(11,514)	(1,581)	(9,039)	8,298	11,662	(2,174)
Equity in (earnings) loss of subsidiaries	(28,225)	--	--	--	28,225	--
Net earnings (loss) before income taxes	3,408	(129)	12,685	32,627	(28,225)	20,366
Provision for income taxes	(9,223)	--	5,299	10,725	--	6,801
Net earnings (loss) before extraordinary items	12,631	(129)	7,386	21,902	(28,225)	13,565
Extraordinary items, net of tax	1,133	--	934	--	--	2,067
Net earnings (loss)	$ 11,498	$ (129)	$ 6,452	$ 21,902	$ (28,225)	$ 11,498

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Sales	$ 105,852	$ 407,714	$ 337,116	$ (52,126)	$ 798,556
Cost of sales	76,815	273,093	221,779	(52,126)	519,561
Gross Profit	29,037	134,621	115,337	--	278,995
Selling and administrative expense	47,736	86,649	68,617	--	203,002
Research, engineering and development expense	4,015	12,285	2,803	--	19,103
Integration expense	--	9,423	1,398	--	10,821
Operating income	(22,714)	26,264	42,519	--	46,069
Net Interest expense	1,000	9,474	1,785	(2,014)	10,245
Other (income)expense, net	(938)	(9,426)	8,212	2,014	(138)
Equity in (earnings) loss of subsidiaries	(38,868)	--	--	38,868	--
Net Earnings before income taxes	16,092	26,216	32,522	(38,868)	35,962
Provision for income taxes	(7,643)	8,426	11,444	--	12,227

Net earnings (loss)	$ 23,735	$ 17,790	$ 21,078	$ (38,868)	$ 23,735

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2000

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ --	$ --	$ --	$ 62,550	$ (5,725)	$ 56,825
Inter-company receivables	20,890	--	30,025	112,304	(163,219)	--
Accounts receivable, net	23,204	--	200,230	195,592	--	419,026
Inventories	8,541	--	196,408	122,178	--	327,127
Prepaids and other current assets	2,122	--	46,629	7,358	3	56,112
Total current assets	54,757	--	473,292	499,982	(168,941)	859,090
Property, plant and equipment, net	34,176	--	195,756	176,351	--	406,283
Investment in subsidiaries	785,839	--	468,007	--	(1,253,846)	--
Inter-company receivables	513,188	84,316	27,549	36,916	(661,969)	--
Goodwill, net	7,904	--	447,512	50,792	--	506,208
Other intangible assets,net	--	--	128,118	12,342	--	140,460
Other assets	53,495	4,671	72,164	3,901	--	134,231
Total assets	$ 1,449,359	$ 88,987	$ 1,812,398	$ 780,284	$(2,084,756)	$ 2,046,272
Current liabilities:						
Accounts payable	$ 11,304	$ --	$ 69,304	$ 67,168	$ (5,725)	$ 142,051
Inter-company payables	33,753	2,133	31,180	96,263	(163,329)	--
Notes payable	--	--	298		--	298
Income taxes	(1,157)	--	1,104	4,775	--	4,722
Accrued liabilities	23,884	38	116,263	97,704	--	237,889
Long-term debt due within one year	12,000	--		--	--	12,000
Total current liability	79,784	2,171	218,149	265,910	(169,054)	396,960
Long-term debt due after one year	1,033,960	86,949	8	95	--	1,121,012
Inter-company payables	4,851	--	482,665	174,454	(661,970)	--
Post-retirement benefits and deferred items	51,540	--	180,125	17,411	--	249,076
Shareholders' equity:						
Serial preferred stock, $1.00 par value	--	--	--	--	--	--
Common shares, $1.25 par value	51,855	--	1	198,923	(198,923)	51,856
Capital in excess of par value	66,084	--	614,466	90,899	(705,365)	66,084
Retained earnings	355,752	(129)	337,515	169,159	(506,545)	355,752
	473,691	(129)	951,982	458,981	(1,410,833)	473,692
Treasury stock at cost	(92,314)	--	(613)	--	613	(92,314)
Accumulated other comprehensive (expense) income	(102,153)	(4)	(19,918)	(136,567)	156,488	(102,154)
Total shareholders' equity	279,224	(133)	931,451	322,414	(1,253,732)	279,224
Total liabilities and shareholders' equity	$ 1,449,359	$ 88,987	$ 1,812,398	$ 780,284	$(2,084,756)	$ 2,046,272

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)
CONSOLIDATED BALANCE SHEETS
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	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)	--
Goodwill, net	2,744	33,004	54,450	--	90,198
Other intangible assets, net	--	6,041	196		6,237
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
Inter-company payables	233,473	16,479	40,292	(290,244)	--
Post-retirement benefits and deferred items	34,678	86,640	14,889	--	136,207
Shareholders' 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 (expense)/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
(DOLLAR AMOUNTS IN THOUSANDS)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

	Parent	Flowserve Finance B.V.	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
CASH FLOWS-OPERATING ACTIVITIES:						
Net earnings	$ 11,498	$ (128)	$ 6,452	$ 21,901	$ (28,225)	$ 11,498
Adjustments to reconcile net earnings to cash provided by operating activities:						
Depreciation	4,698	--	13,319	7,849	--	25,866
Amortization	351	--	6,248	1,945	--	8,544
Net (gain)-loss on sale of fixed assets	--	--	87	(101)	--	(14)
Change in operating assets and liabilities, net of effects of acquisitions and dispositions:						
Accounts receivable	(6,501)	--	(7,788)	2,920	--	(11,369)
Inventories	9,271	--	(30,143)	91	--	(20,781)
Intercompany receivable and payables	(632,814)	(82,183)	399,184	(258,785)	574,598	--
Prepaid expenses	(2,121)	--	1,599	16,533	(4,640)	11,371
Other assets	(18,053)	(4,671)	(6,580)	(18,089)	--	(47,393)
Accounts payable	(1,177)	--	1,254	(6,598)	(1,524)	(8,045)
Accrued liabilities	12,071	38	19,588	(32,887)	--	(1,190)
Income taxes	(4,750)	--	(810)	(1,444)	1,220	(5,784)
Post-retirement benefits and deferred items	16,862	--	(2,074)	(273)	--	14,515
Net deferred taxes	--	--	14,605	(6,073)	--	8,532

Net cash (used) provided by operating activities	(610,665)	(86,944)	414,941	(273,011)	541,429	(14,250)
CASH FLOWS-INVESTING ACTIVITIES						
Capital expenditures, net of disposals	(5,650)	--	(5,204)	(5,485)	--	(16,339)
Payments for acquisitions, net of cash acquired	(560,312)	--	(226,044)	--	--	(786,356)
Net cash flows used in investing activities	(565,962)	--	(231,248)	(5,485)	--	(802,695)
CASH FLOWS-FINANCING ACTIVITIES						
Net borrowings (repayments) under lines of credit	4,396	--	(90)	(4,306)	--	--
Payments on long-term debt	(148,108)	--	(278,598)	--	--	(426,706)
Proceeds from long-term debt	1,184,804	86,949	--	--	--	1,271,753
Other activity	135,535	--	94,106	312,033	(541,037)	637
Net cash flows provided (used) by financing activities	1,176,627	86,949	(184,582)	307,727	(541,037)	845,684
Effect of exchange rate changes on cash	--	(5)	--	(2,372)	--	(2,377)
Net change in cash and cash equivalents	--	--	(889)	26,859	392	26,362
Cash and cash equivalents at beginning of year	--	--	889	29,966	(392)	30,463
Cash and cash equivalents at end of period	$ --	$ --	$ --	$ 56,825	$ --	$ 56,825

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 1999

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
CASH FLOWS-OPERATING ACTIVITIES:					
Net earnings	$ 23,735	$ 17,790	$ 21,078	$ (38,868)	$ 23,735
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation	3,829	12,248	7,405	--	23,482
Amortization	340	1,528	1,559	--	3,427
Net (gain) loss on sale of fixed assets	--	(194)	364	--	170
Change in operating assets and liabilities, net of effects of acquisitions and dispositions:					
Accounts receivable	(1,040)	12,746	(6,221)	--	5,485
Inventories	9,814	8,552	1,840	--	20,206
Intercompany receivable and payables	37,740	(126,609)	(9,946)	98,815	--
Prepaid expenses	30,988	7,747	(15,188)	(20,459)	3,088
Other assets	25,433	(16,262)	1,164	--	10,335
Accounts payable	5,656	(12,030)	350	210	(5,814)
Accrued liabilities	(18,904)	5,036	(3,315)	--	(17,183)
Income taxes	(2,354)	(25,245)	(2,952)	20,459	(10,092)
Post-retirement benefits and deferred items	(52,144)	33,926	(1,691)	--	(19,909)
Net deferred taxes	(16,753)	3,072	17,012	--	3,331
Net cash provided (used) by operating activities	46,340	(77,695)	11,459	60,157	40,261
CASH FLOWS-INVESTING ACTIVITIES					
Capital expenditures, net of disposals	(9,442)	(12,600)	(6,360)	--	(28,402)
Payments for acquisitions, net of cash acquired	(6,365)	--	--	--	(6,365)
Net cash flows used in investing activities	(15,807)	(12,600)	(6,360)	--	(34,767)
CASH FLOWS-FINANCING ACTIVITIES					
Net repayments under lines of credit	(43)	(7,865)	(2,776)	--	(10,684)
Payments on long-term debt	(11,404)	--	--	--	(11,404)
Proceeds from long-term debt	--	32,467	--	--	32,467
Repurchase of common stock	(5,591)	(1,226)	467	1,101	(5,249)
Other stock activity	1	--	31,989	(33,222)	(1,232)
Dividends paid	(15,877)	--	--	--	(15,877)
Other activity	10,997	40,989	2,872	(54,858)	--
Net cash flows (used) provided by financing activities	(21,917)	64,365	32,552	(86,979)	(11,979)
Effect of exchange rate changes on cash	(8,616)	25,930	(44,872)	27,032	(526)

Net change in cash and cash equivalents	--	--	(7,221)	210	(7,011)
Cash and cash equivalents at beginning of year	--	--	31,062	(6,134)	24,928
Cash and cash equivalents at end of period	$ --	$ --	$ 23,841	$ (5,924)	$ 17,917

8. 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 results for Invatec and IDP are included in the Flow Solutions Division and Flowserve Pump Division, respectively, from the date of acquisition. 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.

NINE MONTHS ENDED SEPTEMBER 30, 2000	FLOWSERVE PUMP	FLOW CONTROL	FLOW SOLUTIONS	ALL OTHER	CONSOLIDATED TOTAL
SALES TO EXTERNAL CUSTOMERS	$ 348,398	$ 199,086	$ 444,339	$ 4,744	$ 996,567
INTERSEGMENT SALES	8,441	7,663	12,325	(28,429)	--
SEGMENT OPERATING INCOME (BEFORE SPECIAL ITEMS)	27,426	23,688	52,633	(21,671)	82,076
IDENTIFIABLE ASSETS	$ 1,342,266	$ 203,168	$ 419,302	$ 81,536	$ 2,046,272

Nine months ended September 30, 1999	Flowserve Pump	Flow Control	Flow Solutions	All Other	Consolidated Total
Sales to external customers	$ 267,945	$ 212,442	$ 312,910	$ 5,259	$ 798,556
Intersegment sales	4,497	10,207	11,361	(26,065)	--
Segment operating income (before special items)	16,484	20,671	42,032	(22,297)	56,890
Identifiable assets	$ 243,723	$ 211,894	$ 297,213	$ 78,989	$ 831,819

Reconciliation of the total segment operating income before special items to consolidated earnings before income taxes follows:

	Nine Months Ended September 30, 2000	1999
Total segment operating income (before special items)	$ 103,747	$ 79,187
Corporate expenses and other	21,671	22,297
Integration expense	17,102	10,821
Restructuring	10,470	--
Net interest expense	36,312	10,245
Other income	(2,174)	(138)
Earnings before income taxes	$ 20,366	$ 35,962

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2000

In general, results for the third quarter of 2000 were higher than the corresponding period in the previous year due to the Company's acquisitions of Innovative Valve Technologies, Inc. (Invatec) on January 12, 2000 and Ingersoll-Dresser Pump Company (IDP), on August 8, 2000. These acquisitions are discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis.

Sales increased 62.2% to $412.1 million for the three months ended September 30, 2000, compared with $254.0 million for the same period in 1999. Sales for the quarter would have been $255.1 million on a comparable basis, excluding acquisitions, slightly higher than the prior year. The change in sales is discussed further in the following section on Business Segments. Net sales to international customers, including export sales from the U.S., were 48% during the third quarter of 2000, compared with 51% during the third quarter of 1999. The lower 2000 percentage is due to Invatec's markets being principally in the U.S. Bookings (incoming orders for which there are purchase commitments) were $399.2 million, 54.1% higher than the third quarter of 1999 when bookings were $259.0 million. Bookings from comparable operations, excluding unfavorable currency translation, were virtually unchanged from the prior year period.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Flowserve Pump Division (FPD), formerly the Rotating Equipment Division, for engineered and industrial pumps; Flow Control Division (FCD) for automated and manual quarter-turn valves, control valves, nuclear valves and valve actuators; and Flow Solutions Division (FSD) for precision mechanical seals and flow management services.

Sales and operating income before special items (merger-related expenses) for each of the three business segments are:

	FLOWSERVE PUMP DIVISION	
	Three Months Ended September 30,	
(In millions of dollars)	2000	1999
Sales	$ 201.1	$ 82.7
Operating income	17.3	4.9

The sales increase in 2000 was due to the acquisition of IDP. Excluding IDP, revenues would have been $80.7 million in the third quarter of 2000. Unfavorable currency translation reduced sales by about 3% quarter-over-quarter.

Operating income before special items, as a percentage of sales, increased to approximately 8.6% in 2000 from about 5.9% in the prior-year period. The operating income margin increased as a result of ongoing cost reduction efforts and the benefits of the IDP acquisition.

FLOW CONTROL DIVISION

(In millions of dollars)	Three Months Ended September 30, 2000	1999
Sales	$ 71.5	$ 71.0
Operating income	7.5	5.6

Sales were essentially flat compared with the prior year. Unfavorable currency translation also reduced sales by about 3%.

Operating income before special items, as a percentage of sales, was 10.5% in the third quarter of 2000, compared with 7.9% in 1999. The improved operating margin in 2000 was primarily due to lower operating expenses. These improvements were generally due to reduced costs principally related to the Company's restructuring program initiated in the fourth quarter of 1999.

FLOW SOLUTIONS DIVISION

(In millions of dollars)	Three Months Ended September 30, 2000	1999
Sales	$ 148.2	$ 106.4
Operating Income	17.3	14.1

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 3%.

Operating income before special items, as a percentage of sales, decreased to 11.7% from 13.3% in 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 special items, as a percentage of sales, for comparable operations was 13.6% in 2000

CONSOLIDATED RESULTS

The gross profit margin was 31.6% for the three months ended September 30, 2000, compared with 34.8% for the same period in 1999. The decrease was primarily due to the acquisition of IDP and Invatec as both historically are lower than the balance of the Company. Additional factors included product mix and under-absorption during the quarter.

Selling and administrative expense as a percentage of net sales was 21.8% for the three- month period ended September 30, 2000, compared with 27.4% for the corresponding 1999 period. The decrease was due to the Company's cost reduction initiatives.

Research, engineering and development expense was $6.0 million for the third quarter of 2000, compared with $5.9 million during the same period last year.

Net interest expense during the third quarter of 2000 was $23.4 million, compared with $3.6 million in the same period in 1999 due to the increased borrowing levels required to acquire Invatec and IDP, the amortization of deferred financing fees related to the new debt, and higher interest rates.

Other income was $0.3 million in the third quarter of 2000 compared with $1.2 million of income in the same period in 1999. The 1999 amounts resulted from the receipt of back rent previously written off, foreign currency gains and royalty income.

The Company's effective tax rate for the third quarter of 2000 was 35.8% compared with 34.0% in the third quarter of 1999. The increase was due to the acquisitions.

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

Net earnings for the third quarter of 2000 was a loss of $13.0 million or $0.34 per share, compared to income of $4.9 million or $0.13 per share for the same period in 1999. Excluding special items, net earnings for the third quarter of 2000 were $6.8 million or $0.18 per share which was equal to the prior year.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2000

In general, results for the first nine months of 2000 were higher than the corresponding period in the previous year due to the Company's acquisition of Invatec and IDP. The acquisitions are discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis.

Sales increased 24.8% to $996.6 million for the nine months ended September 30, 2000, compared with $798.6 million for the same period in 1999. Sales for the period would have been $756.3 million on a comparable basis, excluding acquisitions, 5.3% below the same period of 1999. The change in sales is discussed further in the following section on business segments. Net sales to international customers, including export sales from the U.S., were approximately 46% during the first nine months of 2000, compared with 52% during the first nine months of 1999. The lower 2000 percentage is primarily due to Invatec's markets being principally in the U.S. Bookings (incoming orders for which there are purchase commitments) were $1,019.3 million, 33.6% higher than the first nine months of 1999 when bookings were $763.2 million. Bookings from comparable operations also showed year-on-year improvement of 2.4%.

BUSINESS SEGMENTS

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

FLOWSERVE PUMP DIVISION

(In millions of dollars)	Nine Months Ended September 30, 2000	1999
Sales	$ 356.8	$ 272.4
Operating income	27.4	16.5

The sales increase in 2000 was generally due to the acquisition of IDP. Excluding IDP, revenues would have been $236.4 million due to a lower backlog at the beginning of 2000. Unfavorable currency translation reduced sales by 3%.

Operating income before special items, as a percentage of sales, increased to approximately 7.7% in 2000 from about 6.1% in the 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.

FLOW CONTROL DIVISION

(In millions of dollars)	Nine Months Ended September 30, 2000	1999
Sales	$ 206.7	$ 222.6
Operating income	23.7	20.7

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%.

Operating income before special items, as a percentage of sales, was 11.5% in the first nine months of 2000, compared with 9.3% in 1999. The improved operating margin in 2000 was primarily 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.

FLOW SOLUTIONS DIVISION

(In millions of dollars)	Nine Months Ended September 30, 2000	1999
Sales	$ 456.7	$ 324.3
Operating Income	52.6	42.0

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 3%.

Operating income before special items, as a percentage of sales, decreased to 11.5% from 13.0% in 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 special items, as a percentage of sales, for comparable operations was 13.3% in 2000.

CONSOLIDATED RESULTS

The gross profit margin was 33.4% for the nine months ended September 30, 2000, compared with 34.9% for the same period in 1999. The decrease was primarily due to the lower margins associated with IDP and Invatec, as both are historically lower than the balance of the Company.

Selling and administrative expense as a percentage of net sales was 23.3% for the nine-month period ended September 30, 2000, compared with 25.4% for the corresponding 1999 period. The 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 $4.7 million in the first nine months of 2000. In 1999, Flowserver expenses were $10.8 million and were identified and disclosed separately as merger integration expense.

Research, engineering and development expense was $18.4 million for the first nine months of 2000, compared with $19.1 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.

Net interest expense during the first nine months of 2000 was $36.3 million, compared with $10.2 million in the same period in 1999 due to increased borrowing levels required to acquire Invatec and IDP, the amortization of deferred financing fees related to the new debt, and higher interest rates.

The Company recorded other income of $2.2 million during the nine months ended September 30, 2000 primarily as a result of two factors. Income of $0.5 million was realized due to the required mark-to-market adjustments 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 nine of 2000 was 32.9% compared with 34.0% in the first nine months of 1999.

Extraordinary items, net of tax of $1.2 million, of $2.1 million in 2000 represents the impact of the write-off of deferred financing fees and prepayment penalties associated with the cancellation and pay-off of the Company's debt in connection with the IDP acquisition.

Net earnings for the first nine months of 2000 were $11.5 million or $0.30 per share. This was 51.6% below the net earnings of $23.7 million, or $0.63 per share, for the same period of 1999. Excluding special items, net earnings for the first nine months of 2000 were $31.9 million or $0.84 per share compared with $30.9 million, or $0.82 per share for the same period in 1999.

RESTRUCTURING

In August 2000, in conjunction with the acquisition of IDP, the Company initiated a restructuring program designed to streamline the Company by reducing costs and to eliminate excess capacity by consolidating facilities. The Company's actions, approved and committed to in the third quarter of 2000, will result in the reduction of approximately 1,100 positions and are expected to result in an estimated $75 million in annual synergy savings by December 2001. The program includes the closure of IDP's former headquarters, a number of pump manufacturing facilities and service and repair centers and reduction of sales and sales support personnel. The Company estimates that the costs associated with these activities will be approximately $61 million. Approximately $44 million of the total cost relates to the IDP operations acquired and $28 million has been recorded in goodwill as part of the purchase price of IDP ($44 million of estimated costs less deferred tax effect of $16 million), while the remaining cost of $17 million relates to the existing Flowserve operations and has been recorded as restructuring expense.

During the third quarter of 2000, the Company incurred $10.5 million in integration costs in conjunction with this program. As of September 30, 2000, the program had resulted in a net reduction of 170 employees.

Expenditures charged to the 2000 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at August 16, 2000	$ 45,980	$ 14,832	$ 60,812
Cash expenditures	(3,508)	(12)	(3,520)
Balance at September 30, 2000	$ 42,472	$ 14,820	$ 57,292

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

In July 2000, the Company announced, as part of its agreement with the Department of Justice to acquire IDP, that it was required to sell a facility which had previously been

targeted for closure in the fourth quarter of 1999. This resulted in a non-cash reduction of the existing restructuring liability of $5.3 million. Of this total, $1.3 million was recorded as part of the IDP restructuring reserve and the remaining balance was applied against restructuring expense during the current quarter.

The Company is in the process of selling the facility and certain product lines. Any gain or loss on the sale will be recorded in the period in which a sales agreement is reached.

The restructuring program is expected to result in a net reduction of approximately 280 employees at a cost of $12.9 million. In addition, exit costs associated with the facilities closings are estimated at $3.0 million. As of September 30, 2000, the program had resulted in a net reduction of 199 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)
Balance at June 30, 2000	9,794	1,364	11,158
CASH EXPENDITURES	(1,199)	(336)	(1,535)
NONCASH REDUCTION	(4,364)	(1,028)	(5,392)
BALANCE AT SEPTEMBER 30, 2000	$ 4,231	--	$ 4,231

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for the first nine 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 acquisitions.

Capital expenditures, net of disposals, were $16.3 million during the first nine months of 2000, compared with $28.4 million in the first nine 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.

ACQUISITIONS

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.

On August 8, 2000, the Company completed the acquisition of Ingersoll-Dresser Pump Company (IDP), a leading manufacturer of pumps with a diverse mix of pump products and customers with operations in 30 countries, for $775 million in cash. The transaction, which was accounted for as a purchase, was financed with a combination of bank financing and senior subordinated notes. Upon closing of the transaction, the existing five year, $600 million revolving credit agreement was cancelled, and the remaining senior notes issued in 1996 and 1997 were repaid in full.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value after the date of the acquisition. These allocations include $134.5 million for intangibles and $360.3 million recorded as goodwill.

The purchase price allocation for these acquisitions is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses have been included in the consolidated statements of income from the dates of acquisition.

FINANCING

In connection with the acquisition of IDP, on August 8, 2000 the Company entered into a Credit Agreement for senior secured credit facilities which included a $275 million term loan due June 2006, a $475 million term loan due June 2008, and a $300 million revolving credit facility with a final maturity of June 2006. The term loans bear floating interest rates based on LIBOR (either one, two, three, or six month LIBOR at the Company's discretion) plus a credit spread, or the Prime Rate plus a credit spread, at the option of the Company. At September 30, 2000, the interest rate on the term loans and revolving credit facility was 9.50%, 10.25% and 9.375%, respectively. The term loans require scheduled principal payments beginning June 30, 2001. All of the senior secured credit facilities are secured by the domestic assets of the Company and a pledge of 65% of the stock of the foreign subsidiaries. As of September 30, 2000, $10 million of the revolving credit was drawn and the full amount of the term loans were outstanding.

The scheduled principal payments of the term loans outstanding at September 30, 2000 are summarized as follows: $18 million in 2001, $45 million in 2002, $60 million in 2003, $64 million in 2004, $68 million in 2005, $106.6 million in 2006, $258.7 million in 2007 and $129.7 million in 2008. Beginning in 2002, the Company is required to use a percentage of excess cash from operations, as defined in the Credit Agreement, to reduce the outstanding principal of the term loans.

The revolving credit facility allows the Company to issue up to $200 million in letters of credit. As of September 30, 2000, $14.7 million of letters of credit had been issued under the facility. This, coupled with the $10.0 million in borrowings under the facility, left the Company with $275.3 million remaining in unused borrowing capacity under the revolving credit facility.

The Company also issued 10 year, senior subordinated notes on August 8, 2000 in a US dollar tranche and a Euro tranche. Proceeds of $285.9 million from the dollar tranche, and EUR 98.6 million from the euro tranche were also used in completing the IDP acquisition. The notes were issued at a fixed rate of 12.25%, were originally priced at a discount to yield 12.50%, and have no scheduled principal prepayments prior to maturity in August 2010. Interest on the notes is payable semi-annually, with the first payment commencing in February 2001.

The provisions of the Credit Agreement require the Company to meet or exceed specified financial covenants that are defined in the Credit Agreement. These covenants include a leverage ratio, an interest coverage ratio, and a fixed charge coverage ratio. Further, the provisions of the Credit Agreement and the senior subordinated notes require the Company to contain limitations or restrictions relating to new indebtedness, prepayment of subordinated debt, liens, sale and leaseback transactions, disposition of assets, payment of dividends or other distributions, and capital expenditures, among other things.

The Company believes that internally generated funds, including synergies from the IDP acquisition, will be adequate to service the debt.

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.

At September 30, 2000, total debt less cash on hand was 79.4% of the Company's capital structure, compared with 35.7% at December 31, 1999. The interest coverage ratio of the Company's indebtedness was 2.4 times interest at September 30, 2000, compared with 4.3 times interest at December 31, 1999.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Report on Form 10-Q and other written reports and oral statements made from time to time by the Company contain various forward-looking statements and include assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; the Company's ability to integrate IDP and Invatec into its management and operations; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic turmoil in areas outside the United States; continued economic growth within the United States; unanticipated difficulties or costs or reduction in benefits associated with the implementation of the Company's "Flowserver" business process improvement initiative, including software; and the recognition of significant expenses associated with adjustments to realign the combined Company's facilities and other capabilities with its strategic and business conditions including, without limitation, expenses incurred in restructuring the Company's operations to incorporate IDP facilities, and the cost of financing to be assumed in acquiring IDP. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

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

The Company's earnings are affected by changes in short-term interest rates as a result of borrowings under its senior secured credit facilities which bear interest based on floating rates. At September 30, 2000, the Company had approximately $760.0 million of variable-rate debt obligations outstanding with a weighted average interest rate of 10.0%. A hypothetical increase of 100-basis points in the interest rate for these borrowings, assuming debt levels at September 30, 2000, would change interest expense by approximately $5.7 million for the nine months ended September 30, 2000.

There have been no material changes in reported market risk related to foreign currency exchange rate movements since the end of 1999.

PART II OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) During the third quarter of 2000, the Company issued 1,000 shares of restricted common stock pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of two employees, subject to restrictions on transfer and vesting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit - 27.Financial Data Schedule.

(b) Reports on Form 8-K

Form 8-K dated July 19, 2000, Item 5, Other Events. Announcement of an amendment to the Purchase Agreement with Ingersoll-Rand Company dated February 9, 2000 for the acquisition of Ingersoll-Dresser Pump Company.

Form 8-K dated August 2, 2000, Item 5, Other Events. Announcement of Earnings Report for the quarter ended June 30, 2000, and of a definitive written agreement with U. S. Department of Justice regarding the acquisition by Flowserve of Ingersoll-Dresser Pump Company from Ingersoll-Rand Company.

From 8-K dated August 8, 2000, Item 5, Other Events. Announcement of the completion of the acquisition of Ingersoll-Dresser Pump Company from Ingersoll-Rand Company.

Form 8-K dated August 23, 2000, Item 2, Acquisition or Disposition of Assets. Information relating to the acquisition of Ingersoll-Dresser Pump Company from Ingersoll-Rand Company.

Form 8-K dated August 30, 2000, Item 4, Changes in Registrant's Certifying Accountant. Announcement of the approval of PriceWaterhouseCoopers LLP as new independent accountants for the year ended December 31, 2000 to replace Ernst & Young LLP.

SIGNATURE

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

FLOWSERVE CORPORATION
(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: November 14, 2000

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
27	Financial Data Schedule

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