

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999
OR
[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-13179

FLOWSERVE CORPORATION
(Exact name of registrant as specified in its charter)
NEW YORK 31-0267900

State or other jurisdiction of
incorporation or organization)

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

222 W. LAS COLINAS BOULEVARD
SUITE 1500
IRVING, TEXAS

75039

(Address of principal executive offices)

(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (972) 443-6500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
COMMON STOCK, \$1.25 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the common stock held by non-affiliates of the registrant as of February 15, 2000 was approximately \$450.3 million.

The number of shares outstanding of the registrant's common stock as of February 15, 2000: 37,825,600 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement dated March 16, 2000 are incorporated by reference into Part III of this Form 10-K.

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 1999, are incorporated by reference into Parts I, II and IV of this Form 10-K.

PART I

ITEM 1. BUSINESS

Flowserve Corporation ("Flowserve") was incorporated in the State of New York on May 1, 1912. On July 22, 1997, Flowserve (formerly known as Durco International Inc. and The Duriron Company, Inc.) merged with BW/IP, Inc. ("BW/IP") creating one of the world's leading providers of industrial flow management services. All references herein to the "Company" or "Flowserve" refer collectively to Flowserve and its subsidiaries unless otherwise indicated by the context.

Flowserve is principally engaged in the design, manufacture, distribution and service of industrial flow management equipment throughout the world. The Company provides pumps, valves and mechanical seals 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 and services. Flowserve manufactures certain standard products, but specializes in the development of precision engineered equipment for critical service applications where high reliability is required. The Company's materials expertise, design and engineering capabilities and applications know-how have enabled it to develop product lines that are responsive to customers' needs for manufacturing efficiency, reduced maintenance cost, and avoidance of premature equipment failure.

An important element of Flowserve's business is its successful emphasis on providing aftermarket products and services. These services consist of supplying parts, making repairs and providing a variety of technical services for the upgrade or retrofit of equipment to extend its useful life or improve its operating characteristics. In January 2000, the Company expanded its service and repair capabilities for process-industry customers through its acquisition of Innovative Valve Technologies, Inc., ("Invatec") at a cost of approximately \$100 million, including assumed debt. Invatec is engaged principally in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components.

In February 2000, the Company announced its agreement to acquire Ingersoll-Dresser Pump Company ("IDP") for \$775 million in cash. The transaction is subject to regulatory approval and is expected to close in mid-April 2000. IDP manufactures a broad range of centrifugal, reciprocating and rotary pumps. After this acquisition, the Company expects to be the world's second largest engineered pump company.

Unless otherwise specifically stated to the contrary in the following text, the impact of the Invatec acquisition and the agreement to acquire IDP on the Company's business operations or financial performance is not included in this Annual Report on Form 10-K.

The Company operates in three business segments: Rotating Equipment, Flow Control and Flow Solutions. Included in Note 13 to the consolidated financial statements on pages 44 and 45 of the 1999 Annual Report to Shareholders, provided as part of Item 8 of this Form 10-K and incorporated herein by reference, is information concerning the Company's sales, operating income and identifiable assets by business and geographic segment for each year in the three-year period ended December 31, 1999. For a significant portion of its products, the Company's domestic operations supply each other and the Company's foreign manufacturing subsidiaries with components and subassemblies.

In December 1999, the Company announced a planned restructuring of its operations to streamline the Company for better value and to improve asset utilization. Under this plan, the Company intends to close 10 facilities and incur a restructuring charge of \$15.9 million, plus related expenses totaling \$10.8 million of special items.

ROTATING EQUIPMENT

PRODUCTS

Through its Rotating Equipment Division business segment, the Company designs, manufactures and distributes pumps and related equipment (in addition to the products to be acquired upon the expected closing of the IDP acquisition). Pump products accounted for approximately 33%, 34% and 35% of the Company's sales to external customers in 1999, 1998 and 1997, respectively. Pumps are manufactured to industry-recognized standards, including those set by the American Petroleum Institute (API), the American National Standards Institute (ANSI) and the International Standards Organization (ISO).

Pump products for the petroleum industry include horizontal double case pumps used especially for hot oils under high pressure, horizontal multi-stage pumps used in pipelines, vertical pumps used for low specific gravity applications, vertical circulating pumps used for cooling water, submersible pumps used for water or brine injection in oil fields, and submersible water pumps used on offshore platforms to supply water for fire fighting.

Pump products for chemical processing industries include metallic and nonmetallic pumps, varying in size, capacity, material components and sealant specifications. These pumps are used primarily to move liquids during processing activities, but also in auxiliary services such as waste removal, water treatment and pollution control. The pumps are modular in design and manufactured to withstand the abrasive and/or corrosive service fluids being processed by customers in these industries.

Pump products for the power generating industry include a variety of pumps used in both nuclear and fossil fuel facilities to generate steam. Products for the fossil fuel power generation industry are horizontal double case pumps for high pressure boiler feed applications, horizontal multi-stage pumps for low pressure boiler feed applications, vertical double case pumps and vertical circulating pumps.

The Company supplies pumps for other industrial uses, including without limitation industrial production, utility services, pollution control, mining operations and municipal water transport.

MARKETING AND DISTRIBUTION

Pumps or pump components are produced in plant facilities in the United States, Mexico, Argentina, Belgium and The Netherlands. Pump manufacturing facilities in The Netherlands and Belgium are key sources of pumps sold in Europe, Africa and the Middle East. The Argentine facility provides products primarily for Argentine customers, but also serves customers in other South American countries. The Company's Mexican operation manufactures pumps for export and for Mexican customers. Large vertical circulating pumps manufactured in Mexico are distributed worldwide. A majority-owned joint venture in India, which began production in late 1997, manufactures ANSI and ISO pump components which are generally assembled in Belgium.

The two specialized component manufacturing facilities in New Mexico provide a significant portion of pump components (except for ANSI pump components). The component facilities also supply components to other Company plants outside of

the U.S. on an economically selective basis.

The Company's pump products are primarily marketed to end-users and engineering contractors through the Company's worldwide pump sales force, regional service centers, independent distributors and representatives and, for modular pumps, a national parts distribution center.

The majority of the Company's sales of pump products in the nuclear power market are in the United States and Japan, where the Company's large installed base of equipment provides a continuing market for products and services to ensure safety and reliability, major customer concerns. A significant

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characteristic of the nuclear market worldwide is the stringent requirements that must be met in order to sell products to nuclear power plants. For example, the Company maintains a Nuclear Stamp ("N Stamp") from the American Society of Mechanical Engineers, which is required for qualification to supply certain kinds of products to the U.S. nuclear industry.

The Company could face liability in excess of its own commercial or government provided insurance if any of its products were found to contribute to an accident at a nuclear power facility or at other industrial facilities. The Company does not maintain nuclear liability insurance for the United States or Canada, but maintains an aggregate of up to \$15 million in nuclear liability insurance for all other countries. The Federal Price-Anderson Act of 1954 provides U.S. nuclear utilities with a system of no-fault insurance coverage in an amount up to approximately \$8.7 billion for third party losses or damages resulting from a nuclear incident.

BACKLOG

The Rotating Equipment Division's backlog of orders at December 31, 1999, was \$144.0 million, compared to \$162.7 million at December 31, 1998. The Company believes that a high percentage of the current backlog will be shipped by December 31, 2000.

FLOW CONTROL

PRODUCTS

Through its Flow Control Division business segment, the Company designs, manufactures and distributes quarter-turn manual valves, automatic control valves, actuators, and related components. Valve products accounted for approximately 27%, 28% and 27% of the Company's sales to external customers in 1999, 1998 and 1997, respectively. Valves are used to control the flow of liquids and gases. Valve products for industrial processing systems include plug and butterfly valves made of various metals, alloys and plastics and lined ball valves. Actuators and other control accessories manufactured by the Company are either sold independently or mounted on valves to move them from open to closed positions and to various specified positions in between. Valve products for the nuclear power market include a complete line of gate, globe and check valves (including valve actuators). Automatic control valves include high pressure valves, rotary valves, and anti-noise and anti-cavitation valves. These valves are generally sold with an actuator. "Smart" valve technologies have been incorporated into various control valve products to provide more efficient process control. Through a technology alliance with Honeywell Inc., a manufacturer of computerized control systems and software for process plants, the Company's "smart" and control valve technologies are being incorporated in Honeywell's distributed control systems.

MARKETING AND DISTRIBUTION

Valves are produced at facilities in the United States, Australia, France, Germany and Switzerland. Actuators are produced at facilities in the United States, Germany, France and Italy. Two Company majority-owned joint ventures in India manufacture valves for export to U.S., Asian and European markets. In 1999 the Company acquired certain assets and liabilities of Honeywell, Inc.'s industrial control valve business in Maintal, Germany and relocated the production of this product line to its plant in Thiers, France. In 1998 the Company acquired Valtek Engineering Division of Rolls Royce plc, a former licensee with territorial rights covering certain company control valves in parts of Europe, the Middle East and Africa.

Manual valve products and valve actuators are distributed through the Company's sales personnel and through a network of independent stocking distributors. Automatic control valves are marketed through specialized sales offices with engineers and service centers or on a commission basis through independent manufacturing representatives in principal marketing centers throughout the United States and other countries.

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BACKLOG

The Flow Control Division's backlog of orders at December 31, 1999 was \$66.2 million, compared to \$69.8 million at December 31, 1998. The Company believes that virtually all of the current backlog will be shipped by December 31, 2000.

FLOW SOLUTIONS

PRODUCTS

Through its Flow Solutions Division business segment, the Company designs, manufactures and distributes mechanical seals and sealing systems and provides service and repair for flow control equipment used in process industries. Mechanical seal products and flow management services and repairs accounted for approximately 40%, 38% and 36% of the Company's sales to external customers in 1999, 1998 and 1997, respectively.

The mechanical seal is critical to the smooth operation of centrifugal pumps, compressors and mixers because mechanical seals help prevent leakage between a rotating shaft and a stationary casing. In doing so, mechanical seals reduce shaft wear on pumps, compressors and mixers used in many industries. The Company's seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, principally in the oil refining and chemical processing industries. The Company also manufactures a dry gas seal used in gas transmission and oil and gas production markets. Under the Flow Solutions Division organization, the Company has established a global network of service facilities throughout the world which has the capability to provide service, repair and diagnostics for rotating equipment, including pumps, turbines, mixers and compressors, as well as numerous types of valves and mechanical seals. In addition to the January 2000 acquisition of Invatec, the Company sees the opportunity to expand this service repair business, as many of its customers look for alternatives to their own in-house maintenance capabilities or to small and independent service facilities with limited expertise.

MARKETING AND DISTRIBUTION

Mechanical seals are primarily produced in facilities in the United States, The Netherlands, Germany, Mexico, Argentina, Brazil, Singapore, New Zealand, Australia and Japan. Seal manufacturing facilities in The Netherlands and Germany are key sources of seals sold in Europe, Africa and the Middle East.

The Company's mechanical seal products are primarily marketed through the Company's worldwide seals sales force directly to end users and engineering and

construction firms. A portion of the Company's seal products is sold directly to original equipment ("OE") manufacturers for incorporation into pumps, compressors, mixers or other rotary equipment requiring seals. Distributors, dealers, commissioned representatives and sales agents are also used in the distribution and sale of mechanical seal products.

Fully equipped service centers of this Division provide equipment maintenance, including major repairs, advanced diagnostics, installation, commissioning, re-rate and retrofit programs and full machining capabilities. A network of quick response centers provides local engineering, manufacturing and assembly capabilities for mechanical seals, as well as seal inventory.

BACKLOG

The Flow Solutions Division's backlog of orders at December 31, 1999, was \$58.8 million compared to \$56.4 million at December 31, 1998. The Company believes that virtually all of the current backlog will be shipped by December 31, 2000.

GENERAL BUSINESS

COMPETITION

The markets for the Company's products are highly competitive. Competition occurs on the basis of price, technical expertise, delivery, contractual terms, previous installation history and reputation for quality. Delivery speed and the proximity of service centers are important with respect to aftermarket products. Customers are generally more likely to rely on the Company than competitors for Company aftermarket products relating to its more highly engineered and customized products than for its standard products. Price competition tends to be more significant for OE manufacturers than aftermarket services and has been generally increasing. In the aftermarket portion of its service business, the Company competes against both large and well-established national or global competitors and, in some markets, against smaller regional and local companies, as well as the in-house maintenance departments of the Company's end-user customers. In the sale of aftermarket products and services, the Company benefits from the large installed base of pumps which require maintenance, repair and replacement parts.

In the petroleum industry, the competitors for aftermarket services tend to be the customers themselves because of their in-house capabilities. In other industries, except the nuclear power industry, the competitors for aftermarket services tend to be low cost replicators of spare parts and local independent repair shops for the Company's products. The Company has certain competitive advantages in the nuclear power industry because it maintains the N Stamp that is required to service customers in that industry and because the Company has a considerable base of proprietary knowledge.

Customers for the Company's products are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventory. Although vendor reduction programs could adversely affect the Company's business, the Company has been successful in entering into "alliance" arrangements with a number of customers both in the United States and overseas which provide competitive advantages to the Company.

RESEARCH AND DEVELOPMENT

The Company conducts research and development at its own facilities in various locations. In 1999, 1998 and 1997, the Company spent approximately \$15.1 million, \$14.7 million, and \$14.8 million, respectively, on Company-sponsored research and development, primarily for new product development and extensions.

The Company's research and development group consists of engineers involved in new product development as well as the support and improvement of existing products. Additionally, the Company sponsors consortium programs for research with various universities and conducts limited development work jointly with certain of its vendors, licensees and customers. Management believes current expenditures are adequate to sustain ongoing research and development activities.

CUSTOMERS

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 1999 net sales.

RISKS OF INTERNATIONAL BUSINESS

In 1999, 42% of the Company's sales were outside the United States. The Company's activities thus are subject to the customary risks of operating in an international environment, such as unstable political situations, local laws, the potential imposition of trade restrictions or tariff increases and the relationship of the U.S. dollar to other currencies. The impact of these conditions is mitigated somewhat by the strength and diversity of the Company's product lines and geographic coverage. To minimize the impact of foreign exchange rate movements on its operating results, the Company enters into forward exchange contracts to hedge specific

foreign currency denominated transactions. See Note 1 to consolidated financial statements on pages 35 and 36 of the 1999 Annual Report to Shareholders, which is incorporated by reference in this Form 10-K. The Company conducts substantial business activities in the Middle East.

INTELLECTUAL PROPERTY

The Company owns a number of trademarks and patents relating to the name and design of its products. The Company considers its trademarks Byron Jackson(R), Durco(R), United Centrifugal(R), Durametallic(R), BW Seals(R), GASPAC(R), Pacific Wietz(TM), Five Star Seal(R), Wilson-Snyder(R), Valtek(R), Kammer(R), Sereg(TM) and Automax(R) to be important to its business. The patents underlying much of the technology for the Company's 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 the Company's business. However, the Company's pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of its products and their use, is considered particularly important and valuable. Accordingly the Company protects such proprietary information. The Company, in general, is the owner of the rights to the products which it manufactures and sells, and the Company is not dependent in any material way upon any license or franchise to operate.

RAW MATERIALS

The principal raw materials used by the Company in the manufacture of its products are normally readily available. While substantially all raw materials are purchased from outside sources, the Company has been able to obtain an adequate supply of raw materials, and no shortage of such materials is currently anticipated. The Company intends to expand its use of worldwide sourcing to capitalize on low cost sources of purchased goods.

The Company is a vertically-integrated manufacturer of certain pump and valve products. Certain corrosion-resistant castings for Company pumps and quarter-turn valves are manufactured at its Dayton, Ohio foundries; other metal castings are purchased from outside sources.

The Company also produces most of its 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, the Company to date has experienced no significant difficulty in obtaining such materials.

EMPLOYEES AND LABOR RELATIONS

The Company and its subsidiaries employ approximately 7,000 persons of whom approximately 55% work in the United States. The Company's hourly employees at its three principal U.S. pump manufacturing plants in Vernon, California, Dayton, Ohio, and Tulsa, Oklahoma, plus those at its valve manufacturing plant in Williamsport, Pennsylvania and at its foundries in Dayton, Ohio are represented by unions. The Company's operations in Mexico, The Netherlands, Germany and Belgium are unionized. The Company believes employee relations throughout its operations are generally satisfactory, including those represented by unions.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

The Company is subject to environmental laws and regulations in all jurisdictions in which it has operating facilities. The Company periodically makes capital expenditures for pollution abatement and control to meet environmental requirements.

At present, the Company has no plans for any material capital expenditures for environmental control facilities. However, the Company has experienced and continues to experience operating costs relating to environmental matters, although certain costs have been offset by the Company's successful waste minimization programs.

The Company believes that future environmental compliance expenditures will not have a material adverse effect on its financial position and has established allowances which it believes to be adequate to cover potential environmental liabilities.

EXPORTS

Licenses are required from U.S. government agencies to export certain of the Company's products from the United States. In particular, products with nuclear applications are restricted, although limitations are placed on the export of certain other pump, valve and mechanical seal products.

The Company's export sales from the United States to foreign unaffiliated customers were \$142.7 million in 1999, \$130.8 million in 1998 and \$146.7 million in 1997.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This 1999 Annual Report on Form 10-K, including Management's Discussion and Analysis, 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 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.

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ITEM 2. PROPERTIES

The Company's corporate headquarters is a leased facility in Irving, Texas encompassing approximately 34,000 square feet.

Information on the principal manufacturing facilities, by segment, is as follows:

	No. of Plants -----	Approx. Sq. Footage -----
ROTATING EQUIPMENT		
Domestic:	6	1,322,900
International:	6	534,700
FLOW SOLUTIONS		
Domestic:	4	236,800
International:	8	286,400
FLOW CONTROL		
Domestic:	4	528,400
International:	9	389,850

Most of the Company's principal manufacturing facilities are owned; its leased facilities are subject to long-term lease agreements.

On the average, the Company utilizes approximately 80% to 90% of its manufacturing capacity, although there is a variation in usage rate among the facilities. The Company could, in general, increase its capacity through the purchase of new or additional manufacturing equipment without obtaining additional facilities. Pursuant to a restructuring program announced in December 1999, the Company expects to close one of the Flow Solutions Division's manufacturing plants in the U.S. and a number of other U. S. and foreign facilities.

The Company maintains a substantial network of domestic and foreign service

centers and sales offices. Most of these facilities are leased.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business, none of which it believes to be material to its financial condition. For further information about such litigation, see Note 10 of the Financial Statements provided as part of Item 8 of this Form 10-K and incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company (FLS) is traded on the New York Stock Exchange. On February 15, 2000, the Company's records showed approximately 2,200 shareholders of record. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 11,000 beneficial owners of its common stock. In 1999 and 1998, the Company paid a dividend of fourteen cents per share each calendar quarter. In February 2000, the Company announced the suspension of this dividend as part of its agreement to acquire IDP.

PRICE RANGE OF FLOWSERVE COMMON STOCK

(INTRADAY HIGH/LOW PRICES)

	1999 ----	1998 ----
First Quarter	\$17.50/\$15.00	\$33.75/\$26.50
Second Quarter	\$21.56/\$15.31	\$32.44/\$24.25
Third Quarter	\$20.00/\$15.50	\$25.50/\$17.75
Fourth Quarter	\$17.88/\$15.38	\$20.38/\$15.38

During 1999, 1998 and 1997, the Company issued 181,213, 10,165 and 21,700 shares of restricted common stock, respectively, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of directors and certain officers and employees of the Company subject to restrictions on transfer.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1999, which appears on page 49 of the 1999 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis appears on pages 24 through 30 of the 1999 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about market risk appears on page 29 of the Company's 1999 Annual Report to Shareholders under the heading "Market Risks Associated with Financial Instruments" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements appearing on pages 31 through 48 of the 1999 Annual Report to Shareholders, together with the report thereon of Ernst & Young LLP, dated February 10, 2000, appearing on page 23 of the 1999 Annual Report to Shareholders, and supplementary data appearing on page 47 of the 1999 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000, (the "2000 Proxy Statement") is incorporated herein by reference. The executive officers of the Company, all positions and offices presently held by each person named, their ages as of February 15, 2000, and their business experience during the last five years are stated below. Executive officers serve at the discretion of the Board of Directors.

Name and Position -----	Age ---	Principal Occupation During Past Five Years -----
C. Scott Greer President and CEO	49	President since July 1999 and Chief Executive Officer since January 2000; Chief Operating Officer from July to December 1999; President of UT Automotive, a subsidiary of United Technologies Corporation, a supplier of automotive systems and components, from 1997 to 1999; President and a director of Echlin, Inc., an automotive parts supplier, from 1990 to 1997, and its Chief Operating Officer from 1994 to 1997.
Kenneth P. Bell Vice President, Manufacturing Operations	51	Vice President, Manufacturing Operations, since January 2000; General Manager and 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 Vice President, Supply Chain Integration	41	Vice President, Supply Chain Integration, since September 1999; 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.
Renee J. Hornbaker Vice President and	47	Vice President and Chief Financial Officer since December 1997; Vice President, Business Development

Chief Financial Officer

and Chief Information Officer in 1997; Vice President, Finance and Chief Financial Officer of BW/IP in 1997; Vice President, Business Development of BW/IP from 1996 to 1997; 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.

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Name and Position -----	Age ---	Principal Occupation During Past Five Years -----
Rick L. Johnson Vice President, Business Development and Controller	47	Vice President, Business Development since January 1998 and Controller since November 1998; Vice President and Controller of the Industrial Products Division from 1997 to January 1999; Industrial Products Group Vice President and Controller from 1995 to 1997; President Durco Valtek (Singapore) from 1993 to 1995.
Rory E. MacDowell Vice President and Chief Information Officer	49	Vice President and Chief Information Officer since 1998; Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to 1997.
Cheryl D. McNeal Vice President, Human Resources	49	Vice President, Human Resources since 1996; Assistant Vice President, Human Resources and other Human Resource management positions at NCR from 1978 to 1996.
George A. Shedlarski Vice President and President, Flow Solutions Division, and President, Flow Control Division	55	President, Flow Solutions Division since January 1999 and President, Flow Control Division since August, 1999; President, Fluid Sealing Division from 1997 to January 1999; President, ServiceRepair Division in 1997; President, Rotating Equipment Group in 1997; Group Vice President, Industrial Products Group from 1994 to 1997.
Ronald F. Shuff Vice President, Secretary and General Counsel	47	Vice President since 1990 and Secretary and General Counsel since 1988; Sloan Fellow at M.I.T. during 1987-1988; Secretary and General Counsel of AccuRay Corporation, a manufacturer of computer-based process control systems, from 1981 to 1987.
Howard D. Wynn Vice President and President, Rotating Equipment Division	52	President, Rotating Equipment Division since 1997; Vice President of BW/IP, Inc. and President, Pump Division of BW/IP, Inc., from 1996 to 1997; Vice President of the Pump Division of BW/IP from 1993 to 1996.

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ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the 2000 Proxy Statement and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The information required by this Item 12 is set forth in the 2000 Proxy Statement under the heading "Flowserve Stock Ownership" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is set forth to the extent applicable in the 2000 Proxy Statement and is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements, appearing on pages 32 through 48 of the 1999 Annual Report to Shareholders, together with the report thereon of Ernst & Young LLP, dated February 10, 2000, appearing on page 23 of the 1999 Annual Report to Shareholders are incorporated herein by reference.

2. Financial Statement Schedules

The required financial statement schedule together with the report thereon of Ernst & Young LLP dated February 10, 2000 listed in the accompanying index on page F-1, is filed as part of this Form 10-K.

3. Exhibits

The exhibits listed on the accompanying index to exhibits on pages 13 through 17 are filed as part of this Form 10-K.

(b) Reports on Form 8-K

None.

(c) See Item 14(a) 3 above.

(d) See Item 14(a) 2 above.

INDEX TO EXHIBITS*

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of May 6, 1997, among the Company, 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.

- 3.1 1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company. The Company will furnish a copy of the documents to the Commission upon request.)
- 4.2 Rights Agreement dated as of August 1, 1986 between the Company 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 Company'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 Company'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 Company's Form 8-A/A dated June 11, 1998.

- 4.5 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of \$25,000,000 was filed as Exhibit 4.9 to Company's Annual Report on Form 10-K for year ended December 31, 1992.
- 4.6 Credit Agreement dated as of October 7, 1999, among Flowserve Corporation, Bank of America, N.A. as Administrative Agent and as Letter of Credit Issuing Bank, Bank One, Texas, NA as Syndication Agent, ABN AMRO Bank N.V. as Documentation Agent, and the other financial institutions party thereto (filed herewith).
- 4.7 Material Subsidiary Guarantee, dated as of October 7, 1999, by Flowserve FCD Corporation, Flowserve FSD Corporation, Flowserve RED Corporation and Flowserve International, Inc., in favor of and for the benefit of Bank of America, N.A., as Administrative Agent for and representative of itself, the Banks and the Issuing Bank as defined in the Credit Agreement (filed herewith).
- 4.8 Rate Swap Agreement in the amount of \$25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 4.9 Rate Swap Agreement in the amount of \$25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 4.9 Note Agreement, dated as of November 15, 1996, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to \$30,000,000 principal amount of 7.14% Senior Notes, Series A, due November 15, 2006, and \$20,000,000 principal amount of 7.17% Senior Notes, Series B, due March 31, 2007, was filed as Exhibit 4.1 to BW/IP's Registration Statement on Form S-8 (Registration No. 333-21637) as filed February 12, 1997.
- 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 Company'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 Company'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 Company'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 Company'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 Company'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 Company's definitive 1996 Proxy Statement filed on March 10, 1996.**

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- 10.7 Form of Change in Control Agreement between all executive officers and the Company was filed as Exhibit 10.6 to the Company'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 Company'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 Company's Annual Report on Form 10-K for the year ended December 31, 1993.**
- 10.10 Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company'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

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- 10.21 The Company's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company's Annual Report on Form 10-K for the year ended December 31, 1995.**
- 10.27 Flowserve Corporation 1997 Stock Option Plan was included as Exhibit A to the Company'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 Company'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.** (filed herewith)
- 10.30 Flowserve Corporation 1999 Stock Option Plan was included as Exhibit A to the Company's 1999 Proxy Statement which was filed on March 15, 1999.**
- 10.31 Amendment No. 1 to the Flowserve Corporation 1999 Stock Option Plan.** (filed herewith)
- 10.32 BW/IP International, Inc. Supplemental Executive Retirement Plan as amended and restated was filed as Exhibit 10.27 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.**

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- 10.38 Form of Employment Agreement between the Company and certain executive officers was filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997. **
- 10.39 Employment Agreement, effective July 22, 1997, between the Company and Bernard G. Rethore was filed as Exhibit 10.53 to the Company'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 Company and Bernard G. Rethore.** (filed herewith)
- 10.41 Amendment No. 1 to Amended Employment Agreement, effective February 29, 2000, between the Company and Bernard G. Rethore.** (filed herewith)
- 10.42 Employment Agreement, effective July 1, 1999, between the Company and C. Scott Greer was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999. **
- 10.43 Loan Agreement between the Company and C. Scott Greer was filed as Exhibit 10.1 to the Company'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 Company.** (filed herewith)
- 13.1 1999 Annual Report to Shareholders (filed herewith as part of this report to the extent incorporated herein by reference).
- 21.1 Subsidiaries of the Company (filed herewith).
- 23.1 Consent of Ernst & Young LLP (filed herewith).
- 27.1 Financial Data Schedule submitted to the SEC in electronic format (filed herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 24th day of February, 2000.

FLOWSERVE CORPORATION
(Registrant)

By: /s/ C. Scott Greer

C. Scott Greer
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ C. Scott Greer ----- C. Scott Greer	President and Chief Executive Officer (Principal Executive Officer)	February 24, 2000
/s/ Renee J. Hornbaker ----- Renee J. Hornbaker	Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2000
/s/ Rick L. Johnson ----- Rick L. Johnson	Vice President Business Development and Controller (Principal Accounting Officer)	February 24, 2000
/s/ Bernard G. Rethore ----- Bernard G. Rethore	Chairman of the Board	February 24, 2000
/s/ William C. Rusnack ----- William C. Rusnack	Director, Chairman of Audit/Finance Committee	February 24, 2000
/s/ Diane C. Harris ----- Diane C. Harris	Director, Member Audit/Finance Committee	February 24, 2000
/s/ Charles M. Rampacek ----- Charles M. Rampacek	Director, Member Audit/Finance Committee	February 24, 2000
/s/ James O. Rollans ----- James O. Rollans	Director, Member Audit/Finance Committee	February 24, 2000

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Item 14(a)(1) and (2)

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Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
Flowserve Corporation

We have audited the consolidated financial statements of Flowserve Corporation and subsidiaries as of December 31, 1999 and 1998, and for each of the three years in the period ending December 31, 1999, and have issued our report thereon dated February 10, 2000 appearing on page 23 of the 1999 Annual Report (which report and consolidated financial statements are incorporated by reference in this Form 10-K). Our audits also included the financial statement schedule listed in Item 14(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the schedule based on our audits.

In our opinion, based on our audits, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/Ernst & Young LLP

Dallas, Texas
February 10, 2000

FLOWSERVE CORPORATION
Schedule II - Valuation and Qualifying Accounts
(dollars in thousands)

Column A -----	Column B ----- Balance at Beginning Of year	Column C ----- Additions Charged to Earnings	Column D ----- Deductions From reserve	Column E ----- Balance at end of year
Description				
Year ended December 31, 1999:				
Allowance for doubtful accounts (a):	\$ 4,533 =====	\$ 2,214 =====	\$ 1,042 =====	\$ 5,705 =====
Year ended December 31, 1998:				
Allowance for doubtful accounts (a):	\$ 5,059 =====	\$ 333 =====	\$ 859 =====	\$ 4,533 =====
Year ended December 31, 1997:				
Allowance for doubtful accounts (a):	\$ 4,826 =====	\$ 2,458 =====	\$ 2,225 =====	\$ 5,059 =====
Year ended December 31, 1999:				
Inventory reserves (b):	\$ 16,051 =====	\$ 5,254 =====	\$ 2,370 =====	\$ 18,935 =====
Year ended December 31, 1998:				
Inventory reserves (b):	\$ 17,045 =====	\$ 3,388 =====	\$ 4,742 =====	\$ 16,051 =====
Year ended December 31, 1997:				
Inventory reserves (b):	\$ 13,716 =====	\$ 4,308 =====	\$ 619 =====	\$ 17,405 =====

(a) Deductions from reserve represent accounts written off net of recoveries.

(b) Deductions from reserve represent inventory written off.

INDEX TO EXHIBITS*

NO. -----	DESCRIPTION -----
2.1	Agreement and Plan of Merger dated as of May 6, 1997, among the Company, 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.
3.1	1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company. The Company will furnish a copy of the documents to the Commission upon request.)
4.2	Rights Agreement dated as of August 1, 1986 between the Company 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 Company'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 Company'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 Company's Form 8-A/A dated June 11, 1998.
- 4.5 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of \$25,000,000 was filed as Exhibit 4.9 to Company's Annual Report on Form 10-K for year ended December 31, 1992.
- 4.6 Credit Agreement dated as of October 7, 1999, among Flowserve Corporation, Bank of America, N.A. as Administrative Agent and as Letter of Credit Issuing Bank, Bank One, Texas, NA as Syndication Agent, ABN AMRO Bank N.V. as Documentation Agent, and the other financial institutions party thereto (filed herewith).
- 4.7 Material Subsidiary Guarantee, dated as of October 7, 1999, by Flowserve FCD Corporation, Flowserve FSD Corporation, Flowserve RED Corporation and Flowserve International, Inc., in favor of and for the benefit of Bank of America, N.A., as Administrative Agent for and representative of itself, the Banks and the Issuing Bank as defined in the Credit Agreement (filed herewith).
- 4.8 Rate Swap Agreement in the amount of \$25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 4.9 Rate Swap Agreement in the amount of \$25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 4.9 Note Agreement, dated as of November 15, 1996, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to \$30,000,000 principal amount of 7.14% Senior Notes, Series A, due November 15, 2006, and \$20,000,000 principal amount of 7.17% Senior Notes, Series B, due March 31, 2007, was filed as Exhibit 4.1 to BW/IP's Registration Statement on Form S-8 (Registration No. 333-21637) as filed February 12, 1997.
- 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 Company'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 Company'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 Company'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 Company'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 Company'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 Company's definitive 1996 Proxy Statement filed on March 10, 1996.**

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10.7 Form of Change in Control Agreement between all executive officers and the Company was filed as Exhibit 10.6 to the Company'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 Company'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 Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.10 Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Company'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 Company'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 Company'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 Company'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 Company'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 Company'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 Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.**

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Restricted Stock Plan") as amended and restated effective January 1, 1997 was filed as Exhibit 10.15 to the Company'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 Company's Annual Report on Form 10-K for the year ended December 31, 1997.**

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10.20 Amendment No. 1 to Director Retirement Plan was filed as

Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

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10.21 The Company's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Company'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 Company'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

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- 10.35 Amendment No. 2 to the Flowserve Corporation 1998 Restricted Stock Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.**
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- 10.39 Employment Agreement, effective July 22, 1997, between the Company and Bernard G. Rethore was filed as Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997. **
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- 10.41 Amendment No. 1 to Amended Employment Agreement, effective February 29, 2000, between the Company and Bernard G. Rethore.** (filed herewith)
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Company and C. Scott Greer was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999. **

- 10.43 Loan Agreement between the Company and C. Scott Greer was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.**
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- 21.1 Subsidiaries of the Company (filed herewith).
- 23.1 Consent of Ernst & Young LLP (filed herewith).
- 27.1 Financial Data Schedule submitted to the SEC in electronic format (filed herewith).

CREDIT AGREEMENT
Dated as of October 7, 1999
among

FLOWSERVE CORPORATION

BANK OF AMERICA, N.A.
as Administrative Agent,

and as

Letter of Credit Issuing Bank

BANK ONE, TEXAS, NA
as Syndication Agent

ABN AMRO BANK N.V.
as Documentation Agent

and

THE OTHER FINANCIAL
INSTITUTIONS PARTY HERETO

BANC OF AMERICA SECURITIES LLC
BANC ONE CAPITAL MARKETS, INC.
Lead Arrangers and Book Managers

ABN AMRO BANK N.V.
Book Manager

[LOGO]

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CREDIT AGREEMENT

This CREDIT AGREEMENT dated as of October 7, 1999 is entered into by and among FLOWSERVE CORPORATION, a New York corporation ("Borrower"), each lender whose name is set forth on the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement (collectively, the "Banks" and individually, a "Bank"), Bank of America, N.A., as Administrative Agent and as Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

SECTION 1
DEFINITIONS AND ACCOUNTING TERMS

1.1 DEFINED TERMS. As used in this Agreement, the following terms have the meanings set forth below:

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided that, in any event, any Person that owns, directly or indirectly, 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation that has more than 100 record holders of such securities, or 10% or more of the partnership or other ownership interests of any other Person that

has more than 100 record holders of such interests, will be deemed to control such corporation, partnership or other Person.

"Administrative Agent" means Bank of America, when acting in its capacity as the Administrative Agent under any of the Loan Documents, or any successor Administrative Agent.

"Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.6, or such other address or account as the Administrative Agent hereafter may designate by written notice to Borrower and the Banks.

"Agent-Related Persons" means the Administrative Agent (including any successor agent), together with their respective Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Agreement" means this Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

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"Applicable Amount" means:

(a) for any Pricing Period with respect to Tranche A Commitments, the per annum amounts set forth below under Applicable Amount opposite the applicable Leverage Ratio; provided however, that until the date that is six months from the Closing Date, the Applicable Amount shall be not less than the per annum amounts indicated below for a Leverage Ratio of <2.0 but > or = 1.0:

(a) Pricing for Tranche A Loans			
Applicable Amount (in basis points per annum)			
Leverage Ratio	Facility Fee	Applicable Amount For Financial Letters of Credit Applicable Amount for Offshore Rate Loans Offshore Rate +	Applicable Amount for Base Rate Loans Base Rate +
> or = 3.5	50.0	150.0	100.0
<3.5 but > or = 3.0	50.0	125.0	75.0
<3.0 but > or = 2.5	45.0	105.0	50.0
<2.5 but > or = 2.0	35.0	90.0	25.0
<2.0 but > or = 1.0	25.0	75.0	0.0
<1.0	17.5	57.5	0.0

(b) for any Pricing Period with respect to Tranche B Commitments, the per annum amounts set forth below under Applicable Amount opposite the applicable Leverage Ratio; provided however, that until the date that is six months from the Closing Date, the Applicable Amount shall be not less than the per annum amounts indicated below for a Leverage Ratio of <2.0 but > or = 1.0:

(b) Pricing for Tranche B Loans

Applicable Amount
(in basis points per annum)

Leverage Ratio	Facility Fee	Applicable Amount For Offshore Rate Loans	Applicable Amount For Base Rate Loans
		Offshore Rate +	Base Rate +
> or = 3.5	47.5	152.5	100.0
< 3.5 but > or = 3.0	47.5	127.5	75.0
< 3.0 but > or = 2.5	42.5	107.5	50.0
< 2.5 but > or = 2.0	32.5	92.5	25.0
< 2.0 but > or = 1.0	22.5	77.5	0
< 1.0	15.0	60.0	0

As used in this definition:

"Applicable Amount Change Date" means the day following the last date of the period covered by the financial statements delivered by Borrower pursuant to Section 6.1 reflecting such change in the Leverage Ratio.

"Applicable Taxes" means any and all present or future taxes (including documentary taxes), levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto imposed by a Governmental Authority relating to any Loan Document, including any liabilities imposed on amounts paid by Borrower to indemnify or reimburse any Person for such amounts, excluding Bank Taxes.

"Approved Offshore Currency" means Euros, and any other currency that in the opinion of all Banks is freely traded in the offshore interbank foreign exchange markets and is freely transferable and freely convertible into Dollars and in which dealings in deposits are carried out on the London interbank market.

"Arrangers" means Banc of America Securities LLC and Banc One Capital Markets, Inc.

"Attorney Costs" means and includes all fees and disbursements of any law firm or other external counsel and the allocated cost of internal legal services and all disbursements of internal counsel.

"Bank" means each lender from time to time party hereto and the Issuing Bank.

"Bank of America" means Bank of America, N.A., a national banking association.

"Bank Taxes" means, in the case of each Bank, the Administrative Agent and each Eligible Assignee, and any Affiliate, the Issuing Bank or Lending Office thereof: (a) taxes imposed on or measured in whole or in part by its overall net income, gross income or gross receipts or capital and franchise taxes imposed on it, by (i) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Lending Office or (ii) any jurisdiction (or political subdivision thereof) in which it is "doing business" (unless it would not be doing business in such jurisdiction (or political subdivision thereof) absent the transactions contemplated hereby), (b) any withholding taxes or other taxes based on gross income imposed by the United States of America (other than withholding taxes and taxes based on gross income resulting from or attributable to any change in any law, rule or regulation or any change in the interpretation or administration of any law, rule or regulation by any Governmental Authority) or (c) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 10.22, to the extent such forms are then required by applicable Laws.

"Base Rate" means, for any day, the higher of: (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America in Charlotte, North Carolina, as its "reference rate." The "reference rate" is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.

"Base Rate Loan" means a Loan which bears interest based on the Base Rate.

"Borrower" means Flowserve Corporation, a New York corporation.

"Borrowing" and "Borrow" each mean a borrowing hereunder consisting of Loans of the same type made on the same day and, other than in the case of Base Rate Loans, having the same Interest Period.

"Borrowing Date" means the date that a Loan is made by the Banks, which shall be a Business Day.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City or San Francisco are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means any such day on which dealings are carried on in the London interbank market in Dollars or, with respect to Offshore Currency Loans, any such day on which dealings carried on in the London interbank market in the Approved Offshore Currency of such Offshore Currency Loan, and if the applicable Business Day relates to the Euro, means (a) any such day which is, for payments of purchases of the Euro, a TARGET Business Day and (b) for all other purposes, including without limitation the giving and receiving of notices hereunder, a TARGET Business Day on which banks are generally open for business in London, Frankfurt and in any other principal financial center as the Administrative Agent may from time to time determine for this purpose.

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"Capital Lease Obligation" means, with respect to any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet or for which the amount of the assets and liabilities thereunder, if so capitalized, should be disclosed in a note to such balance sheet, the amount of the liability which should be so capitalized or disclosed.

"Cash Equivalents" means:

(a) cash;

(b) Securities with maturities of one year or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof or Securities of comparable credit quality issued by foreign governments;

(c) bank instruments, each with maturities of one year or less from the date of acquisition of any Bank or any other commercial bank having capital and surplus in excess of \$300,000,000 and having a rating on commercial paper issued by such commercial bank of at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks) or a comparable credit in a foreign country;

(d) commercial paper of an issuer rated at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks);

(e) repurchase agreements fully collateralized by any obligation referred to above obligating any Bank or any other commercial bank having capital and surplus in excess of \$300,000,000 and having a rating on commercial paper issued by such commercial bank of at least A-2 by S&P or P-2 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks) or a comparable credit in a foreign country to repurchase such obligation not later than 90 days after the purchase of such obligation;

(f) Securities of Borrower and its Subsidiaries held in their respective treasuries;

(g) preferred stock commonly known as Dutch Auction Preferred Stock, Capital Market Preferred Stock, Remarketable Preferred Stock, Variable Rate Preferred Stock or other similar terms; provided that in each case such preferred stock has the highest rating given by S&P or Moody's (or if at such time neither is issuing ratings, then the highest rating of such other nationally recognized rating agency as shall be approved by Requisite Banks); and

(h) money market programs of investment companies regulated under the Investment Company Act of 1940, as amended, which, at the time of acquisition by Borrower or a Subsidiary, if rated, are (or if such money market programs are not rated the underlying investments of which are) rated A-1 by S&P or P-1 by Moody's (or if at such time neither is issuing ratings, then a comparable rating of such other nationally recognized rating agency as shall be approved by Requisite Banks); provided that such money market programs invest only in investments of the type described in this definition.

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"Change of Control" means the acquisition by any Person, or two or more Persons acting in concert of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of 25% or more of the outstanding shares of voting stock of Borrower.

"Closing Date" means the time and Business Day on which the conditions set forth in Section 4.1 are satisfied or waived. The Administrative Agent shall notify Borrower and the Banks of the date that is the Closing Date.

"Code" means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

"Commercial Letter of Credit" means any letter of credit issued for the account of Borrower for the purpose of providing the principal payment mechanism in connection with the purchase of goods by Borrower or any of its Subsidiaries in the ordinary course of business.

"Commitment" means, for each Bank, the Tranche A Commitment and Tranche B Commitment (collectively, the "combined Commitments").

"Compliance Certificate" means a certificate in the form of Exhibit B, properly completed and signed by a Responsible Officer.

"Consolidated Adjusted EBITDA" means, for any period, (a) EBITDA for such period for the Borrower and its Subsidiaries on a consolidated basis determined in accordance with GAAP, plus (b) in the case of each Person acquired by Borrower and its Subsidiaries, the EBITDA of such Person for the applicable period prior to its acquisition by Borrower or a Subsidiary, but only if the annualized EBITDA (excluding any one time adjustments) of such Person is at least \$5,000,000; provided that such EBITDA of such Person prior to its acquisition by Borrower or a Subsidiary shall be included only if the financial statements of such Person for such applicable period prior to its acquisition by Borrower or a Subsidiary have been audited by a "Big Five" accounting firm or another independent accounting firm reasonably satisfactory to the Requisite Banks.

"Consolidated Funded Debt," means, as of any date, the sum of (a) items (a), (b), (c) and (d) of the definition of Debt plus (b) all drawn but not reimbursed letters of credit (including Letters of Credit issued hereunder) and, without duplication, plus (c) the greater of aggregate amount of liability assumed or net cash proceeds received with respect to outstanding accounts receivables subject to a Receivables Program in a sale or other financing of accounts permitted by Section 7.13, all on a consolidated basis for Borrower and its Subsidiaries.

"Consolidated Interest Charges" means, for any period, for Borrower and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, fees, charges and related expenses payable by 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 (b) the portion of rent payable by Borrower and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP.

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"Consolidated Net Income" means, for any period, the net income of Borrower and its Subsidiaries on a consolidated basis for such period determined in accordance with GAAP.

"Consolidated Net Worth" of any Person means the consolidated shareholders' equity of such Person and its consolidated Subsidiaries determined in accordance with GAAP (but without taking into account any adjustments for the effects of foreign currency translation pursuant to Statement No. 52 of the Financial Accounting Standards Board, or any similar statement issued in substitution therefor).

"Consolidated Total Assets" means, as of any date of determination, all assets that should be reflected as assets on a consolidated balance sheet of Borrower and its Subsidiaries on such date prepared in accordance with GAAP.

"Contingent Obligation", as applied to any Person, means (a) any direct or indirect liability, contingent or otherwise, of the Person with respect to any Debt, lease, dividend, letter of credit or other obligation of another,

including, without limitation, any such obligation directly or indirectly guarantied in writing, endorsed (other than for collection or deposit in the ordinary course of business), co-made, or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable, including without limitation, any such obligation for which that Person is in effect liable through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet item, level of income or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation, services or lease regardless of the non-delivery or non-furnishing thereof, in any case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof; the amount of any Contingent Obligation shall be equal to the amount of the obligation so guarantied or otherwise supported and (b) net obligations of such Person under any Swap Agreement in an amount equal to (i) if such Swap Agreement has been closed out, the termination value thereof, or (ii) if such Swap Agreement has not been closed out, the mark-to-market value thereof determined on the basis of readily available quotations provided by any recognized dealer in such Swap Agreements.

"Continuation" and "Continue" each mean, with respect to any Loan other than a Base Rate Loan, the continuation of such Loan as the same type of Loan in the same principal amount and in the same currency, but with a new Interest Period and an interest rate determined as of the first day of such new Interest Period. Continuations must occur on the last day of the Interest Period for such Loan.

"Contractual Obligation" means, as to any Person, any provision of any outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its property is bound.

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"Conversion" and "Convert" each mean, with respect to any Loan, the conversion of one type of Loan in one currency into another type of Loan in the same currency. With respect to Loans other than Base Rate Loans, Conversions must occur on the last day of the Interest Period for such Loan.

"Debt" means, without duplication, (a) indebtedness for borrowed money, (b) obligations evidenced by bonds (other than performance bonds), debentures, notes or other similar instruments, (c) obligations to pay the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business and not more than 60 days past due or being contested in good faith by appropriate proceedings and other than payments made in respect of employment contracts), (d) Capital Lease Obligations, (e) obligations under direct or indirect written guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (a) through (d) above, and (f) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect affecting the rights of creditors

generally.

"Default" means any event that, with the giving of any applicable notice or passage of time specified in Section 8.1, or both, would be an Event of Default.

"Default Rate" means an interest rate equal to the Base Rate plus the Applicable Amount, if any, applicable to the Base Rate plus 2%, to the fullest extent permitted by applicable Laws.

"Designated Deposit Account" means a deposit account to be maintained by Borrower with Bank of America, as from time to time designated by Borrower by written notification to the Administrative Agent.

"Disposition" means the sale, transfer, or other disposition of any asset of Borrower or any of its Subsidiaries, including without limitation any sale, assignment, pledge, hypothecation, transfer or other disposal with or without recourse of any notes or accounts receivable or any rights and claims associated therewith.

"Dollars" or "\$" means United States dollars.

"Dollar Equivalent" means the equivalent in Dollars of the applicable currency calculated at the Spot Rate as of (a) the date of any Extension of Credit, (b) the last Business Day of each month, (c) the date any payment is made with respect to any Obligation denominated in an Approved Offshore Currency, and (d) any date selected from time to time by the Administrative Agent in its sole discretion or at the direction of the Requisite Banks.

"EBITDA" means, (without duplication) with respect to any Person and for any period, (a) the sum of (i) net income, plus (ii) interest expense (including, with respect to Borrower and its Subsidiaries, any interest expense or discount of Borrower or any of its Subsidiaries,

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associated with any sale or other financing of accounts permitted under Section 7.13), plus (iii) depreciation expense, plus (iv) amortization expense of goodwill, other intangibles and financing costs, plus (v) extraordinary losses, plus (vi) Federal, state, local and foreign income tax expense, minus (b) extraordinary gains on asset sales, minus (c) noncash extraordinary income.

"Eligible Assignee" means (a) a financial institution organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000, provided that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Bank, (ii) a Subsidiary of a Person of which a Bank is a Subsidiary, or (iii) a Person of which a Bank is a Subsidiary and (d) another Bank.

"Environmental Law" means any and all statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions of any federal, state or local governmental authority within the United States or any State or Territory thereof and which relate to the environment or the release of any materials into the environment.

"Equity Proceeds" means, as of any date of determination, the aggregate amount of the net proceeds received by Borrower from the sale or sales of, or

capital contributions with respect to, its common stock, preferred stock or other capital stock or rights, options or warrants therefor, after deduction of costs, discounts and commissions incurred in connection with such sale or sales, to such date of determination.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person who for purposes of Title IV of ERISA is a member of Borrower's controlled group, or under common control with Borrower, within the meaning of Section 414 of the Code and the regulations promulgated and rulings issued thereunder.

"ERISA Event" means (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with respect thereto has been waived by the PBGC; (ii) the provision by the administrator of any Pension Plan of a notice of intent to terminate such Pension Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (iii) the cessation of operations at a facility in the circumstances described in Section 4068(f) of ERISA; (iv) the withdrawal by Borrower or an ERISA Affiliate from a Multiemployer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (v) the failure by Borrower or any ERISA Affiliate to make a payment to a Pension Plan required under Section 302(f)(1) of ERISA, which Section imposes a lien for failure to make required payments; (vi) the adoption of an amendment to a Pension Plan requiring the provision of security to such Pension Plan, pursuant to Section 307 of ERISA; or (vii) the institution by the PBGC of

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proceedings to terminate a Pension Plan, pursuant to Section 4042 of ERISA, or the occurrence of any event or condition which, in the reasonable judgment of Borrower, might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, a Pension Plan.

"Euro" means the single currency of participating member states introduced in accordance with the provisions of Article 109(1)(4) of the Treaty; all payments to be made under this Agreement in euros shall be made in immediately available, freely transferable funds.

"Event of Default" has the meaning provided in Section 8.1.

"Excess Net Proceeds" has the meaning provided in Section 7.6(g).

"Existing Credit Agreement" means the Credit Agreement dated as of November 26, 1997 among Borrower, the lenders named therein and Bank of America, National Trust and Savings Association, as agent, as amended to the date hereof.

"Extension of Credit" means (a) the Borrowing of any Loans, (b) the Conversion or Continuation of any Loans or (c) the issuance, renewal, increase, continuation, amendment or other credit action with respect to any Letter of Credit, including the Banks acquiring a participation in such Letters of Credit (collectively, the "Extensions of Credit").

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Administrative Agent of the rates for the

last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent.

"Financial Letter of Credit" means any Standby Letter of Credit that is not a Performance Letter of Credit.

"Fiscal Quarter" means the fiscal quarter of Borrower consisting of a three-month fiscal period ending on each March 31, June 30, September 30 and December 31.

"Fiscal Year" means the fiscal year of Borrower consisting of a twelve-month period ending on each December 31.

"FRB" means the Board of Governors of the Federal Reserve System or any governmental authority succeeding to its functions.

"Generally Accepted Accounting Principles" or "GAAP" means, as of any date of determination, accounting principles (a) set forth as generally accepted in then currently effective Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants, (b) set forth as generally accepted in then currently effective Statements of the

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Financial Accounting Standards Board or (c) that are then approved by such other entity as may be approved by a significant segment of the accounting profession in the United States of America. The term "consistently applied," as used in connection therewith, means that the accounting principles applied are consistent in all material respects with those applied at prior dates or for prior periods.

"Governmental Authority" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, central bank or comparable authority, authority, board, bureau, commission, department, instrumentality or public body, or (c) any court or administrative tribunal of competent jurisdiction.

"Increase Date" has the meaning specified in Section 2.6.

"Increase Remainder" has the meaning specified in Section 2.6.

"Increased Commitment Acceptance" means an acceptance of a Proposed Increased Commitment entered into by a Bank and accepted by the Administrative Agent, in substantially the form of Exhibit F.

"Interest Payment Date" means, (a) with respect to any Base Rate Loan, the last Business day of each calendar quarter and the Tranche A Maturity Date or Tranche B Maturity Date, as applicable, and (b) with respect to any other type of Loan, (i) any date that such Loan is prepaid in whole or in part, (ii) the last day of each Interest Period applicable to, or the maturity of, such Loan; provided, however, that if any Interest Period or the maturity of any such Loan exceeds three months, the date that falls three months after the beginning of such Interest Period shall also be an Interest Payment Date, and (iii) the Tranche A Maturity Date or Tranche B Maturity Date, as applicable.

"Interest Period" means, as to any Loans other than Base Rate Loans, the period commencing on the date specified by Borrower in its Request for Extension of Credit and ending one, two, three or six (or if available to all Banks, 4 or 5 months) thereafter (as selected by Borrower in the Request for Extension of Credit relating thereto; provided that:

(a) The first day of any Interest Period shall be a Business Day;

(b) Any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, in the case of an Offshore Rate Loan, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; and

(c) No Interest Period shall extend beyond the Tranche A Maturity Date or Tranche B Maturity Date, as applicable.

"Investment", as applied to any Person means any direct or indirect purchase or other acquisition by that Person of, or a beneficial interest in, stock or other Securities of any other Person, or any direct or indirect loan, advance (other than advances to employees or consultants for moving and travel expenses, drawing accounts and similar expenditures in the ordinary

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course of business) or capital contribution by that Person to any other Person, including all Debt and accounts receivable from that other Person which are not current assets or did not arise from sales to that other Person in the ordinary course of business. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"IRS" means the Internal Revenue Service.

"Issuing Bank" means Bank of America, N.A.

"Joint Venture" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership or other legal form; provided that in no event shall any corporate Subsidiary of any Person be considered to be a Joint Venture to which such Person is a party.

"Laws" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents, including without limitation the interpretation thereof by any Governmental Authority charged with the enforcement thereof.

"Lending Office" means, as to any Bank, the office or offices of such Bank specified as its "Lending Office" or "Domestic Lending Office" or "Offshore Lending Office", as the case may be, on Schedule 10.6, or such other office or offices as such Bank may from time to time notify Borrower and the Administrative Agent.

"Letter of Credit" means any of the letters of credit issued by the Issuing Bank hereunder, either as originally issued or as the same may be supplemented, amended, renewed or extended.

"Letter of Credit Application" means an application for issuances of, or amendments to, letters of credit as shall at any time be in use at the Issuing Bank.

"Letter of Credit Usage" means, as at any date of determination, the undrawn face amount of outstanding Letters of Credit plus the aggregate amount of all drawings under the Letters of Credit honored by the Issuing Bank and not theretofore reimbursed or converted into Loans.

"Leverage Ratio" means as of any date of determination, the ratio of (a) Consolidated Funded Debt plus the outstanding amount of Financial Letters of Credit in excess of \$25,000,000 in the aggregate as of such date, to (b)

Consolidated Adjusted EBITDA for the four Fiscal Quarters ending on such date, plus, if such four Fiscal Quarter period covers the period in which a one time charge relating to restructuring and integration costs is taken, up to \$50,000,000 of such one time restructuring and integration cost charge actually taken by Borrower in 1999 or the first quarter of 2000.

"Lien" means any lien, mortgage, pledge, security interest, charge, encumbrance, easement, exception or assessment of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and, with respect to an asset or assets that are material, any agreement to give any security interest in the future).

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"Loan" means any advance made or to be made by any Bank to Borrower as provided in Section 2, and includes each Tranche A Loan, Tranche B Loan and Swing Line Loan.

"Loan Documents" means, collectively, this Agreement, the Notes, the Letters of Credit, the Material Subsidiary Guaranty, any Request for Extension of Credit, any Letter of Credit Application, any Compliance Certificate and any other agreements of any type or nature hereafter executed and delivered by Borrower or any of its Subsidiaries or Affiliates to the Administrative Agent, the Issuing Bank or to any Bank in any way relating to or in furtherance of this Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Long-Term Debt" means, as of any date of determination, senior, unsecured debt securities of Borrower with a scheduled maturity in excess of twelve months from such determination date.

"Material Adverse Effect" means a material adverse effect, individually or in the aggregate, upon (i) the business, operations, properties, prospects, assets or condition (financial or otherwise) of Borrower and its Subsidiaries, taken as a whole, or (ii) the financial ability of Borrower and its Subsidiaries, taken as a whole, or otherwise Borrower or any Subsidiary (if a party thereto) to perform or of the Banks to enforce the Obligations under the Loan Documents.

"Material Subsidiary" means any domestic Subsidiary of Borrower having (a) Consolidated Total Assets which account 10% or more of the Consolidated Total Assets of Borrower and its Subsidiaries, or (b) revenue which is 10% or more of the total revenue of Borrower and its Subsidiaries on a consolidated basis, in each case determined based upon the most recent financial statements delivered pursuant to Section 6.1.

"Material Subsidiary Guaranty" means the Material Subsidiary Guaranty substantially in the form of Exhibit E, as amended, supplemented, restated or otherwise modified from time to time.

"Maximum Permitted Combined Tranche A Commitments" means \$360,000,000.

"Maximum Permitted Combined Tranche B Commitments" means \$240,000,000.

"Minimum Amount" means, with respect to each of the following actions, the following amounts set forth opposite such action (a reference to "Minimum Amount" shall also be deemed a reference to the multiples in excess thereof set forth below):

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Type of Action	Minimum Amount	Minimum Multiples in excess of Minimum Amount
Borrowing or prepayment of Swing Line Loans	\$ 100,000	\$ 50,000
Borrowing of, prepayment of or Conversion into, Base Rate Loans (other than Swing Line Loans)	\$ 1,000,000	\$ 500,000
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Rate Loans	\$ 5,000,000	\$ 1,000,000
Reduction in Commitments	\$25,000,000	\$10,000,000
Increase in Commitments	\$10,000,000	\$10,000,000
Assignments	\$ 5,000,000	

"Minority Interest Subsidiary Debt" means the portion of the Debt of a Subsidiary of Borrower which is allocable to third-party owners of the capital stock of such Subsidiary based on the ownership interest of such third party owners in relation to the ownership interests of Borrower and its Subsidiaries.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which Borrower or any ERISA Affiliate of Borrower is making, or is obligated to make, contributions or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Net Proceeds" means, with respect to any Disposition, the gross sales proceeds received by Borrower and its Subsidiaries from such Disposition (including cash, property and the assumption by the purchaser of any liability of Borrower or its Subsidiaries) net of brokerage commissions, legal expenses and other transactional costs payable by Borrower and its Subsidiaries with respect to such Disposition and net of an amount determined in good faith by Borrower to be the estimated amount of income taxes payable by Borrower attributable to such Disposition.

"New Commitment Acceptance" means an acceptance of a Proposed New Commitment entered into by an Accepted Bank and accepted by the Administrative Agent, in substantially the form of Exhibit G hereto.

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"Non-Hostile Acquisition" means an acquisition (whether by purchase of capital stock or assets, merger or otherwise) which has been approved by resolutions of the Board of Directors of the Person being acquired or by similar action if the Person is not a corporation and as to which such approval has not been withdrawn.

"Non-Recourse Debt" means, as applied to any Receivables Program, Debt

under the terms of which no personal recourse may be had against Borrower or any of its Subsidiaries for the payment of the principal of or interest or premium on such Debt solely as a result of a default by one or more account debtors in the payment of any accounts receivable included in such Receivables Program.

"Notes" means, collectively, the Tranche A Loan Notes, the Tranche B Loan Notes, and the Swing Line Notes.

"Notice of Assignment and Acceptance" means a Notice of Assignment and Acceptance substantially in the form of Exhibit D.

"Obligations" means all loans, advances, debts, reimbursement obligations, liabilities, obligations, covenants and duties owing by Borrower or any of its Subsidiaries to any Bank, the Administrative Agent, the Issuing Banks, any affiliate of any Bank or the Administrative Agent, or any Person entitled to indemnification pursuant to Section 10.11, of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, arising under this Agreement or under any written guaranties executed by any of Borrower's Subsidiaries in favor of the Administrative Agent on behalf of the Banks, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, written guaranty, indemnification, letter of credit transactions or bankers' acceptance transactions or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements and any other sum chargeable to Borrower or any of its Subsidiaries under this Agreement or any guaranties executed by any of Borrower's Subsidiaries in favor of the Administrative Agent on behalf of the Banks.

"Offshore Base Rate" has the meaning set forth in the definition of Offshore Rate.

"Offshore Currency Loan" means a Loan denominated in an Approved Offshore Currency that bears interest based on the Offshore Rate.

"Offshore Currency Overnight Rate" means, for any day, the rate of interest per annum at which overnight deposits in an Approved Offshore Currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by Bank of America's principal office in London to major banks in the London or other applicable offshore interbank market.

"Offshore Rate" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/16th of 1%) determined by the Administrative Agent as follows:

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$$\begin{aligned} \text{Offshore Rate} &= \frac{\text{Offshore Base Rate}}{\text{1.00 - EURODOLLAR RESERVE PERCENTAGE}} \end{aligned}$$

Where,

"Eurodollar Reserve Percentage" means for any day for any Interest Period the maximum reserve percentage (expressed as a decimal,

rounded upward to the next 1/100th of 1%) in effect on such day (whether or not applicable to any Bank) under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"); and

"Offshore Base Rate" means the rate of interest per annum determined by the Administrative Agent to be the arithmetic mean (rounded upward to the next 1/16th of 1%) of the rates of interest per annum notified to the Administrative Agent by Bank of America as the rate of interest at which deposits in Dollars or the applicable Approved Offshore Currency, as the case may be, in the case of a Loan, in an amount approximately equal to Bank of America's Offshore Rate Loan comprising part of such Borrowing, and having a maturity comparable to the Interest Period of such Loans would be offered to major banks in the London or interbank market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Offshore Rate Loan" means a Loan that bears interest based on the Offshore Rate.

"Opinion of Counsel" means the favorable written legal opinion of John M. Nanos, Esq., Sr. Associate General Counsel of Borrower and its Subsidiaries, substantially in the form of Exhibit I, together with copies of all factual certificates and legal opinions upon which such counsel has relied.

"Outstanding Obligations" means Outstanding Tranche A Obligations and Outstanding Tranche B Obligations.

"Outstanding Tranche A Obligations" means, as of any date, and giving effect to making any Extensions of Credit requested on such date and all payments, repayment and prepayments made on such date, the sum of (a) the aggregate outstanding principal of all Tranche A Loans, and (b) all Letter of Credit Usage.

"Outstanding Tranche B Obligations" means, as of any date, and giving effect to making any Extensions of Credit requested on such date and all payments, repayment and prepayments made on such date, the aggregate outstanding principal of all Tranche B Loans.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto established under ERISA.

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"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, which is subject to Title IV of ERISA and is sponsored or maintained by Borrower or any ERISA Affiliates or to which Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions or accrued an obligation to make contribution at any time during the immediately preceding five years.

"Performance Letter of Credit" means a Standby Letter of Credit covering potential default by the Person for whose account the Standby Letter of Credit is issued for the purpose of performance-related, non-financial contractual obligations. By way of example, and not by limitation, performance-related contractual obligations include construction, bid or performance bonds, performance warranties payable upon breach, releases of funds retained to cover performance and refunds of advance payments on contractual

obligations where default of a performance related contract has occurred.

"Person" means any individual or entity, including a trustee, corporation, limited liability company, general partnership, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, firm, joint venture, Governmental Authority, or other entity.

"Plan" means an employee benefit plan, as defined in Section 3(3) of ERISA, which Borrower or any ERISA Affiliate sponsors or maintains, or to which Borrower or any ERISA Affiliate makes, is making or is obligated to make, contributions; and includes any Pension Plan or Multiemployer Plan.

"Pricing Period" means (a) the period commencing on the Closing Date and ending on the first Applicable Amount Change Date to occur thereafter and (b) each subsequent period commencing on each Applicable Amount Change Date and ending the day prior to the next Applicable Amount Change Date.

"Proposed Combined Commitments Increase" has the meaning specified in Section 2.6.

"Proposed Increased Commitment" has the meaning specified in Section 2.6.

"Proposed New Commitment" has the meaning specified in Section 2.6.

"Pro Rata Share" means, with respect to each Bank, the percentage of the combined Commitments set forth opposite the name of that Bank on Schedule 2.1.

"Quarterly Payment Date" means each June 30, September 30, December 31 and March 31.

"Receivables Program" has the meaning specified in Section 7.13.

"Request for Extension of Credit" means a written request substantially in the form of Exhibit A duly completed and signed by a Responsible Officer, or a telephonic request followed by such a written request, in each case delivered to the Administrative Agent by Requisite Notice.

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"Requisite Banks" means (a) as of any date of determination if the Commitments are then in effect, Banks having in the aggregate more than 50% of the combined Commitments then in effect and (b) as of any date of determination if the Commitments have then been terminated and there are Loans and Letter of Credit Usage outstanding, Banks holding Loans aggregating more than 50% of the aggregate outstanding principal amount of the Loans and Letter of Credit Usage.

"Requisite Notice" means, unless otherwise provided herein, (a) irrevocable written notice to the intended recipient or (b) irrevocable telephonic notice to the intended recipient, promptly followed by a written notice to such recipient. Such notices shall be (i) delivered or made to such recipient at the address, telephone number or facsimile number set forth on Schedule 10.6 or as otherwise designated by such recipient by Requisite Notice to the Administrative Agent and (ii) if made by Borrower, given or made by a Responsible Officer. Any written notice shall be in the form, if any, prescribed in the applicable section herein and may be given by facsimile provided such facsimile is promptly confirmed by a telephone call to such recipient.

"Requisite Time" means, with respect to any of the actions listed below, the time set forth opposite such action on or prior to the date (the "relevant date") set forth below (all times are California time):

Action -----	Time -----	Date of Action -----
Delivery of Request for Extension of Credit for, or notice for:		
Borrowing and prepayment of Swing Line Loans	10:00 a.m.	Same date as such Borrowing or prepayment
Borrowing of, prepayment of, or Conversion into, Base Rate Loans:	8:00 a.m.	Same date as such Borrowing, prepayment or Conversion
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Rate Loans (other than Offshore Currency Loans)	10:00 a.m.	3 Business Days prior to such Borrowing, prepayment or Conversion
Borrowing of, prepayment of, Continuation of, or Conversion into, Offshore Currency Loans	10:00 a.m.	3 Business Days prior to such Borrowing, prepayment or Conversion action
Letter of Credit action	10:00 a.m.	2 Business Days prior to such action
Voluntary reduction or termination of Commitments	10:00 a.m.	2 Business Days prior to such reduction or termination
Borrower's request for increase in Commitments	11:00 a.m.	30 days prior to Increase Date

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Action -----	Time -----	Date of Action -----
Bank's response to request for increase in Commitments	11:00 a.m.	5 days prior to Increase Date
Bank's commitment to Increase Remainder	11:00 a.m.	1 Business Day prior to Increase Date
Funds made available by Banks or Borrower to Administrative Agent	11:00 a.m.	On date due

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of Borrower, or any other officer or partner having substantially the same authority and responsibility. Any document or certificate hereunder that is signed or executed by a Responsible Officer shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of Borrower and the Responsible Officer shall be conclusively presumed to have acted on behalf of Borrower.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Securities" means any stock, shares, partnership interests, voting trust certificates, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"Senior Debt Documents" means collectively (a) Borrower's 7.02% Senior Notes due 2002 in the aggregate outstanding principal amount of \$14,300,000 and (b) Borrower's 7.14% Series A Senior Notes due 2006 in the aggregate outstanding principal amount of \$30,000,000 and Borrower's 7.17% Series B Senior Notes due 2007 in the aggregate outstanding principal amount of \$20,000,000, in each case together with any and all agreements and instruments executed in connection with the issuance of such Senior Notes, as in effect from time to time and after giving effect to any waivers thereunder.

"Solvent" means, with respect to any Person that: (a) the total present fair value and fair salable value of such Person's assets on a going concern

basis is in excess of the total amount of such Person's liabilities, including contingent liabilities; (b) such Person is able to pay its liabilities and contingent liabilities as they become due; and (c) such Person does not have unreasonably small capital with which to engage in such Person's business as theretofore operated and as proposed to be operated.

"Spot Rate" for a currency means the rate quoted by Bank of America to the Administrative Agent, rounded upward to the nearest 1/100 of 1%, as the spot rate for the purchase by Bank of America of such currency with another currency through its FX Trading

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Office at approximately 8:00 a.m. (San Francisco time) on the date two Business Days prior to the date as of which the foreign exchange computation is made.

"Standby Letter of Credit" means any standby letter of credit or similar instrument issued for the account of Borrower for the purpose of supporting performance, payment, deposit or surety obligations of Borrower or any of its Subsidiaries.

"Subordinated Debt" means any unsecured Debt of Borrower subordinated in right of payment to the Obligations pursuant to documentation containing maturities, amortization schedules, covenants, defaults, remedies, subordination provisions and other material terms in form and substance satisfactory to the Administrative Agent and the Requisite Banks.

"Subsidiary" of any Person means any corporation, association, partnership or other business entity of which at least 50% of the total voting power of shares of stock or other Securities entitled to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof.

"Subsidiary Debt" means Debt of a Subsidiary of Borrower owed to any Person other than Borrower or a Subsidiary of Borrower and reimbursement obligations under letters of credit issued for the account of a Subsidiary of Borrower, except for (i) Debt of any Material Subsidiary under the Material Subsidiary Guaranty, (ii) Debt of Subsidiaries set forth on Schedule 7.1 and any refinancings thereof permitted pursuant to Section 7.1(e), (iii) Debt of Subsidiaries permitted by Section 7.1(j), and (iv) Contingent Obligations of Subsidiaries permitted by Sections 7.5(a), 7.5(d), 7.5(f), 7.5(k) (other than in respect of letters of credit) and Contingent Obligations constituting performance bonds.

"Swap Agreement" means any agreement relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing).

"Swing Line Lender" means Bank of America, or any Person serving as successor Administrative Agent hereunder, in its capacity as Swing Line Lender hereunder.

"Swing Line Loan Commitment" means the commitment of Swing Line Lender to make Swing Line Loans to Borrower pursuant to subsection 2.1(d).

"Swing Line Loans" means the Loans made by Swing Line Lender to Borrower pursuant to subsection 2.1(d).

"Swing Line Note" means (i) the promissory note of Borrower issued

pursuant to subsection 2.1(e) on the Closing Date and (ii) any promissory note issued by Borrower to any successor Swing Line Lender pursuant to subsection 2.1(e), in each case substantially in the form of Exhibit C-3 either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

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"TARGET Business Day" is a day when TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system), or any successor thereto, is scheduled to be open for business.

"Third Party" has the meaning specified in Section 2.6.

"Total Utilization of Commitments" means at any date of determination the sum of (i) the aggregate principal amount of all Loans outstanding at such date plus (ii) the Letter of Credit Usage determined as of such date.

"Treaty" means the Treaty establishing the European Economic Community, being the Treaty of Rome of March 25, 1957 as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed on February 7, 1992 and came into force on November 1, 1993) as amended, varied or supplemented from time to time.

"Tranche A Availability Period" means the period commencing on the Closing Date and ending on the day before the Tranche A Maturity Date.

"Tranche A Commitment" means, for each Bank, the amount set forth as such opposite such Bank's name on Schedule 2.1 as the Tranche A Commitment, as such amount may be reduced pursuant to the terms of this Agreement (collectively, the "combined Tranche A Commitments"). The respective Tranche A Pro Rata Shares of the Banks are set forth in Schedule 2.1.

"Tranche A Loan" means a Loan of any type made to Borrower by any Bank in accordance with its Tranche A Pro Rata Share pursuant to Section 2.1(a).

"Tranche A Loan Note" means the promissory note made by Borrower to a Bank evidencing Tranche A Loans made by such Bank, substantially in the form of Exhibit C-1, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted (collectively, the "Tranche A Loan Notes").

"Tranche A Maturity Date" means the earlier of (a) October 7, 2004 (as such date may be extended from time to time pursuant to Section 2.12(a)), and (b) the date of termination in whole of the Tranche A Commitments pursuant to Section 2.4 or 8.2.

"Tranche A Pro Rata Share" means, with respect to each Bank, the percentage of the combined Tranche A Commitments set forth opposite the name of that Bank on Schedule 2.1.

"Tranche B Availability Period" means the period commencing on the Closing Date and ending on the day before the Tranche B Maturity Date.

"Tranche B Commitment" means, for each Bank, the amount set forth as such opposite such Bank's name on Schedule 2.1 as the Tranche B Commitment, as such amount may be reduced pursuant to the terms of this Agreement (collectively, the "combined Tranche B Commitments"). The respective Tranche B Pro Rata Shares of the Banks are set forth in Schedule 2.1.

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"Tranche B Loan" means a Loan of any type made to Borrower by any Bank in accordance with its Tranche B Pro Rata Share pursuant to Section 2.1(b).

"Tranche B Loan Note" means the promissory note made by Borrower to a Bank evidencing Tranche B Loans made by such Bank, substantially in the form of Exhibit C-2, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted (collectively, the "Tranche B Loan Notes").

"Tranche B Maturity Date" means the date that occurs 364 days from the Closing Date; provided, however, that if any Bank has consented to an extension request in accordance with Section 2.12, with regard to the then existing Tranche B Maturity Date, the then existing Tranche B Maturity Date as to such Bank shall be automatically extended for 364 days from the then existing Tranche B Maturity Date; provided, however, that, notwithstanding any other provisions of this Agreement to the contrary, the Tranche B Maturity Date shall occur upon the earlier termination in whole of the Tranche B Commitments pursuant to Sections 2.4 or 8.2.

"Tranche B Pro Rata Share" means, with respect to each Bank, the percentage of the combined Tranche B Commitments set forth opposite the name of that Bank on Schedule 2.1.

"type" of Loan means (a) a Base Rate Loan or (b) an Offshore Rate Loan.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"Utilization Fee" means an amount equal to (i) for all periods that the Total Utilization of Commitments is greater than 50% but less than or equal to 75% of the combined Commitments, .05% per annum of the aggregate amount of the Total Utilization of Commitments, and (ii) for all periods that the Total Utilization of Commitments is greater than 75% of the combined Commitments, .15% per annum of the aggregate amount of the Total Utilization of Commitments.

"Wholly-Owned Subsidiary" has the meaning specified in Section 7.8(b).

"Withdrawal Liability" has the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

1.2 USE OF DEFINED TERMS. Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

1.3 ACCOUNTING TERMS. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, Generally Accepted Accounting Principles applied on a consistent basis, except as otherwise specifically prescribed herein. In the event that Generally Accepted Accounting Principles change during the term of this Agreement such that the financial covenants would then be calculated in a different manner or

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with different components, (a) Borrower and the Banks agree to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating Borrower's financial condition to substantially the same

criteria as were effective prior to such change in Generally Accepted Accounting Principles and (b) Borrower shall be deemed to be in compliance with the covenants contained in the aforesaid Sections during the 90-day period following any such change in Generally Accepted Accounting Principles if and to the extent that Borrower would have been in compliance therewith under Generally Accepted Accounting Principles as in effect immediately prior to such change.

1.4 ROUNDING. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a rounding up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

1.5 EXHIBITS AND SCHEDULES. All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

1.6 REFERENCES TO "BORROWER AND ITS SUBSIDIARIES". Any reference herein to "Borrower and its Subsidiaries" or the like shall refer solely to Borrower during such times, if any, as Borrower shall have no Subsidiaries.

1.7 MISCELLANEOUS TERMS. The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

1.8 DOLLAR EQUIVALENT AMOUNTS. Any provisions in this Agreement setting forth amounts in Dollars shall be deemed to refer to the Dollar Equivalent of such currency on the date of determination pursuant to the definition thereof. The Administrative Agent shall determine the Dollar Equivalent of Obligations from time to time in accordance with the definition of "Dollar Equivalent."

SECTION 2 COMMITMENTS; INTEREST, FEES, PAYMENT PROCEDURES

2.1 COMMITTED LOANS.

(a) Subject to the terms and conditions set forth in this Agreement, each Bank severally agrees, to make, Convert and Continue Tranche A Loans in Dollars or in Approved Offshore Currencies during the Tranche A Availability Period as Borrower may request; provided, however, that (i) the Outstanding Tranche A Obligations of each Bank shall not exceed such Bank's Tranche A Commitment and (ii) the Outstanding Tranche A Obligations of all the Banks plus the outstanding principal amount of Swing Line Loans shall not exceed the combined Tranche A Commitments at any time. Subject to the foregoing and other terms and conditions

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hereof, Borrower may borrow, Convert, Continue, prepay and reborrow Tranche A Loans as set forth herein without premium or penalty.

(b) Subject to the terms and conditions set forth in this Agreement, each Bank severally agrees, to make, Convert and Continue Tranche B Loans in Dollars or in Approved Offshore Currencies during the Tranche B Availability Period as Borrower may request; provided, however, that the Outstanding Tranche B Obligations of each Bank shall not exceed such Bank's Tranche B Commitment and the Outstanding Tranche B Obligations of all the Banks shall not exceed the combined Tranche B Commitments at any time. Subject to the foregoing and other terms and conditions hereof, Borrower may borrow, Convert, Continue, prepay and

reborrow Tranche B Loans as set forth herein without premium or penalty.

(c) Notwithstanding any other provision of this Agreement, no Loan shall be made in an Approved Offshore Currency if, after giving effect to such Loan, the Dollar Equivalent at the time the proposed Loan is to be made of all outstanding Loans made in Approved Offshore Currencies plus the Dollar Equivalent of the proposed Loan is greater than \$50,000,000.

(d) Swing Line Loans.

(i) Subject to the terms and conditions of this Agreement, the Swing Line Lender hereby agrees, subject to the limitations set forth below with respect to the maximum amount of Swing Line Loans permitted to be outstanding from time to time, to make a portion of the Tranche A Loan Commitments available to Borrower from time to time during the Tranche A Availability Period by making Swing Line Loans to Borrower in Dollars in an aggregate amount not exceeding the amount of the Swing Line Loan Commitment, notwithstanding the fact that such Swing Line Loans, when aggregated with the Tranche A Loans of the Swing Line Lender then in effect, may exceed the Swing Line Lender's Tranche A Loan Commitment. The original amount of the Swing Line Loan Commitment is \$25,000,000; provided that any reduction of the Tranche A Loan Commitments made pursuant to Section 2.5 which reduces the aggregate Tranche A Loan Commitments to an amount less than the then current amount of the Swing Line Loan Commitment shall result in an automatic corresponding reduction of the Swing Line Loan Commitment to the amount of the Tranche A Loan Commitments, as so reduced, without any further action on the part of Borrower, the Administrative Agent or the Swing Line Lender. Amounts borrowed under this subsection 2.1(d) may be repaid and reborrowed to but excluding the Tranche A Maturity Date.

(ii) Anything contained in this Agreement to the contrary notwithstanding, the Swing Line Loans and the Swing Line Loan Commitment shall be subject to the limitation that Outstanding Tranche A Obligations plus the outstanding principal amount of Swing Line Loans shall not at any time exceed the combined Tranche A Loan Commitments after giving effect to any Borrowing of Swing Line Loans, then in effect.

(iii) With respect to any Swing Line Loans which have not been prepaid or repaid by the Borrower pursuant to subsections 2.1(d)(i), 2.4 or 2.5, the Swing Line Lender may, at any time in its sole and absolute discretion, by delivery to the Administrative Agent (with a copy to Borrower) by Requisite Time, of a notice (which

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shall be deemed to be a Request for Extension of Credit given by the Borrower) requesting the Banks to make Tranche A Loans that are Base Rate Loans on such funding date in an amount equal to the amount of such Swing Line Loans (the "Refunded Swing Line Loans") outstanding on the date such notice is given which the Swing Line Lender requests the Banks to prepay. Anything contained in this Agreement to the contrary notwithstanding, (a) the proceeds of such Tranche A Loans made by the Banks other than the Swing Line Lender shall be immediately delivered by the Administrative Agent to the Swing Line Lender (and not to Borrower) and applied to repay a corresponding portion of the Refunded Swing Line Loans and (b) on the day such Tranche A Loans are made, the Swing Line Lender's Tranche A Pro Rata Share of the Refunded Swing Line Loans shall be deemed to be paid with the proceeds of a Tranche A Loan made by the Swing Line Lender, and such portion of the Swing Line Loans deemed to be so paid shall no longer be outstanding as Swing Line Loans and shall no longer be due under the Swing Line Note, if any, of the

Swing Line Lender but shall instead constitute part of the Swing Line Lender's outstanding Tranche A Loans and shall be due under the Tranche A Loan Note, if any, of the Swing Line Lender. Borrower hereby authorizes the Administrative Agent and the Swing Line Lender to charge Borrower's accounts with the Administrative Agent and the Swing Line Lender (up to the amount available in each such account) in order to immediately pay the Swing Line Lender the amount of the Refunded Swing Line Loans to the extent the proceeds of such Tranche A Loans made by the Banks, including the Tranche A Loan deemed to be made by the Swing Line Lender, are not sufficient to repay in full the Refunded Swing Line Loans. If any portion of any such amount paid (or deemed to be paid) to the Swing Line Lender should be recovered by or on behalf of Borrower from the Swing Line Lender in bankruptcy, by assignment for the benefit of creditors or otherwise, the loss of the amount so recovered shall be ratably shared among all Banks.

(iv) If for any reason (a) Tranche A Loans are not made upon the request of the Swing Line Lender as provided in the immediately preceding paragraph (iii) in an amount sufficient to repay any amounts owed to the Swing Line Lender in respect of any outstanding Swing Line Loans or (b) the Tranche A Loan Commitments are terminated at a time when any Swing Line Loans are outstanding, each Bank shall be deemed to, and hereby agrees to, have purchased a participation in such outstanding Swing Line Loans in an amount equal to its Tranche A Pro Rata Share (calculated, in the case of the foregoing clause (b), immediately prior to such termination of the Tranche A Loan Commitments) of the unpaid amount of such Swing Line Loans together with accrued interest thereon. Upon one Business Day's notice from the Swing Line Lender, each Bank shall deliver to the Swing Line Lender an amount equal to its respective participation in same day funds. In order to further evidence such participation (and without prejudice to the effectiveness of the participation provisions set forth above), each Bank agrees to enter into a separate participation agreement at the request of the Swing Line Lender in form and substance reasonably satisfactory to Swing Line Lender. In the event any Bank fails to make available to the Swing Line Lender the amount of such Bank's participation as provided in this paragraph, the Swing Line Lender shall be entitled to recover such amount on demand from such Bank together with interest thereon at the rate customarily used by the Swing Line Lender for the correction of errors among banks for three Business Days and thereafter at the Base Rate. In the event the Swing Line Lender receives a payment of

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any amount in which other Banks have purchased participations as provided in this paragraph, the Swing Line Lender shall promptly distribute to each such other Bank its Tranche A Pro Rata Share of such payment.

(v) Anything contained herein to the contrary notwithstanding, each Bank's obligation to make Tranche A Loans for the purpose of repaying any Refunded Swing Line Loans pursuant to paragraph (iii) above and each Bank's obligation to purchase a participation in any unpaid Swing Line Loans pursuant to the immediately preceding paragraph (iv) shall be absolute and unconditional and shall not be affected by any circumstance, including without limitation (a) any set-off, counterclaim, recoupment, defense or other right which such Bank may have against the Swing Line Lender, Borrower or any other Person for any reason whatsoever; (b) the occurrence or continuation of an Event of Default or a Default; (c) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of Borrower or any of its Subsidiaries; (d) any breach of

this Agreement or any other Loan Document by any party thereto; or (e) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing; provided that such obligations of each Bank are subject to the condition that (x) the Swing Line Lender believed in good faith that all conditions under Section 4 to the making of the applicable Refunded Swing Line Loans or other unpaid Swing Line Loans, as the case may be, were satisfied at the time such Refunded Swing Line Loans or unpaid Swing Line Loans were made or (y) the satisfaction of any such condition not satisfied had been waived in accordance with subsection 10.02 prior to or at the time such Refunded Swing Line Loans or other unpaid Swing Line Loans were made.

(e) Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. Upon the request of any Bank made through the Administrative Agent, such Bank's Tranche A Loans may be evidenced by one or more Tranche A Loan Notes, such Bank's Tranche B Loans may be evidenced by one or more Tranche B Loan Notes, and the Swing Line Lender's Swing Line Loans may be evidenced by a Swing Line Note, instead of or in addition to loan accounts. Each such Bank may attach schedules to its Note(s) and endorse thereon the date, currency, amount and maturity of its Tranche A or Tranche B Loans, respectively, and payments with respect thereto. Such loan accounts, records or Notes shall be conclusive absent manifest error of the amount of such Loans and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to the Loans.

2.2 BORROWINGS, CONVERSIONS AND CONTINUATIONS OF LOANS.

(a) Borrower may irrevocably request a Borrowing, Conversion or Continuation of Loans in a Minimum Amount therefor by delivering a duly completed Request for Extension of Credit therefor by Requisite Notice to the Administrative Agent not later than the Requisite Time therefor. All Borrowings, Conversions or Continuations shall constitute Base Rate Loans unless properly and timely otherwise designated as set forth in the preceding sentence.

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(b) Promptly following receipt of a Request for Extension of Credit, the Administrative Agent shall notify each Bank of its Tranche A or Tranche B Pro Rata Share, as the case may be, of the Tranche A and/or Tranche B Loan requested by Borrower thereof by Requisite Notice. If any Bank promptly notifies the Administrative Agent that it is unable, in its sole discretion, to fund an Offshore Currency Loan in the requested currency, such request for Extension of Credit shall be deemed withdrawn. In the case of a Borrowing of Loans, each Bank shall make the funds for its Loan available to the Administrative Agent in the currency of such Loan at the Agent's Office not later than the Requisite Time therefor on the Business Day specified in such Request for Extension of Credit. Upon satisfaction or waiver of the applicable conditions set forth in Section 4, all funds so received shall be made available to Borrower in like funds received.

(c) The Administrative Agent shall promptly notify Borrower and the Banks of the Offshore Rate and, if an Offshore Currency Loan, the Dollar Equivalent thereof, applicable to any Offshore Rate Loan upon determination thereof.

(d) Unless the Administrative Agent and the Requisite Banks otherwise consent, Loans with no more than ten different Interest Periods shall be outstanding at any one time.

(e) No Loans other than Base Rate Loans may be requested or continued during the existence of a Default or Event of Default. During the existence of a Default or Event of Default, the Requisite Banks may determine that any or all

of the then outstanding Loans other than Base Rate Loans shall be Converted to Base Rate Loans. Such Conversion shall be effective upon notice to Borrower from the Administrative Agent and shall continue so long as such Default or Event of Default continues to exist.

(f) If a Loan is to be made on the same date that another Loan is due and payable, Borrower or the Banks, as the case may be, shall make available to the Administrative Agent the net amount of funds giving effect to both such Loans and the effect for purposes of this Agreement shall be the same as if separate transfers of funds had been made with respect to each such Loan.

(g) The failure of any Bank to make any Loan on any date shall not relieve any other Bank of any obligation to make a Loan on such date, but no Bank shall be responsible for the failure of any other Bank to so make its Loan.

2.3 LETTERS OF CREDIT.

(a) Subject to the terms and conditions hereof, at any time and from time to time from the Closing Date through the Tranche A Maturity Date, the Issuing Bank shall issue, supplement, modify, amend, renew, or extend Letters of Credit in Dollars or in Approved Offshore Currencies under the Tranche A Commitments as Borrower may request; provided, however, that (i) the Outstanding Tranche A Obligations of each Bank shall not exceed such Bank's Tranche A Commitment and the Outstanding Tranche A Obligations of all the Banks plus the outstanding principal amount of the Swing Line Loans shall not exceed the combined Tranche A Commitments at any time and (ii) the aggregate outstanding Letter of Credit Usage shall not exceed the Dollar Equivalent of \$150,000,000 at any time. Each Letter of Credit shall be in a

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form acceptable to the Issuing Bank and shall not violate any policies of the Issuing Bank. The Issuing Bank shall not be obligated to issue a Letter of Credit denominated in a foreign currency if and so long as the Issuing Bank determines that foreign currency market circumstances make it unlawful, impossible or impracticable for the Issuing Bank to issue such Letter of Credit. Unless all the Banks, the Administrative Agent and the Issuing Bank otherwise consent in a writing delivered to the Administrative Agent, and subject to permitting "evergreen" Letters of Credit as provided in subsection (b) below, no Letter of Credit shall expire later than the earlier of (x) the Tranche A Maturity Date and (y) five years after its date of original issuance.

(b) Borrower may irrevocably request the issuance, supplement, modification, amendment, renewal, or extension of a Letter of Credit by delivering a duly completed Letter of Credit Application therefor to the Issuing Bank, with a copy to the Administrative Agent, by Requisite Notice not later than the Requisite Time therefor. Unless the Administrative Agent notifies the Issuing Bank that such Letter of Credit Action is not permitted hereunder or the Issuing Bank determines that such Letter of Credit Action is contrary to any Laws or policies of the Issuing Bank or does not otherwise conform to the requirements of this Agreement, the Issuing Bank shall effect such Letter of Credit Action. Letters of Credit may have automatic extension or renewal provisions ("evergreen" Letters of Credit) so long as the Issuing Bank has the right to terminate such evergreen Letters of Credit no less frequently than annually within a notice period to be agreed upon at the time each such Letter of Credit is issued. This Agreement shall control in the event of any conflict with any Letter of Credit Application.

(c) Upon the issuance of a Letter of Credit, each Bank shall be deemed to have purchased a pro rata participation in such Letter of Credit, as from time to time supplemented, amended, renewed, or extended, from the Issuing Bank in an amount equal to that Bank's Tranche A Pro Rata Share. Without limiting the scope and nature of each Bank's participation in any Letter of Credit, to the

extent that the Issuing Bank has not been reimbursed by Borrower for any payment required to be made by the Issuing Bank under any Letter of Credit, each Bank shall, pro rata according to its Tranche A Pro Rata Share, reimburse the Issuing Bank through the Administrative Agent promptly upon demand for the amount of such payment. The obligation of each Bank to so reimburse the Issuing Bank shall be absolute and unconditional and shall not be affected by the occurrence of an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of Borrower to reimburse the Issuing Bank for the amount of any payment made by the Issuing Bank under any Letter of Credit together with interest as hereinafter provided.

(d) Borrower agrees to pay to the Issuing Bank through the Administrative Agent an amount equal to any payment made by the Issuing Bank with respect to each Letter of Credit within one Business Day after demand made by the Issuing Bank therefor. The principal amount of any such payment shall bear interest pursuant to the related Letter of Credit Application therefor and shall be used to reimburse the Issuing Bank for the payment made by it under the Letter of Credit. Each Bank that has reimbursed the Issuing Bank for its Tranche A Pro Rata Share of any payment made by the Issuing Bank under a Letter of Credit shall thereupon acquire a pro rata participation, to the extent of such reimbursement, in the claim of the Issuing Bank against Borrower under this Section and shall share, in accordance with that pro rata participation, in any payment made by Borrower with respect to such claim.

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(e) If Borrower fails to make the payment required by subsection (d) above within the time period therein set forth, in lieu of the reimbursement to the Issuing Bank under such subsection, the Issuing Bank may (but is not required to), without notice to or the consent of Borrower, instruct the Administrative Agent to cause Loans to be made by the Banks in an aggregate amount equal to the amount paid by the Issuing Bank with respect to that Letter of Credit and, for this purpose, the conditions precedent set forth in Section 4 shall not apply. The proceeds of such Loans shall be paid to the Issuing Bank to reimburse it for the payment made by it under the Letter of Credit. Such Loans shall be payable upon demand and shall bear interest at the Default Rate.

(f) Once an evergreen Letter of Credit is issued, Borrower shall not be required to annually request that the Issuing Bank permit the renewal thereof. Borrower, the Administrative Agent and the Banks authorize (but may not require) the Issuing Bank to, in its sole discretion, permit the renewal of such evergreen Letter of Credit if such Letter of Credit could be issued in the first instance at such time.

(g) The obligation of Borrower to pay to the Issuing Bank the amount of any payment made by the Issuing Bank under any Letter of Credit shall be absolute, unconditional, and irrevocable. Without limiting the foregoing, Borrower's obligations shall not be affected by any of the following circumstances:

(i) any lack of validity or enforceability of the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) any amendment or waiver of or any consent to departure from the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, with the consent of Borrower;

(iii) the existence of any claim, setoff, defense, or other rights which Borrower may have at any time against the Issuing Bank, the Administrative Agent or any Bank, any beneficiary of the Letter of Credit (or any persons or entities for whom any such beneficiary may be acting) or any other Person, whether in connection with the Letter of Credit, this Agreement, or any other agreement or instrument relating

thereto, or any unrelated transactions;

(iv) any demand, statement, or any other document presented under the 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 whatsoever so long as any such document appeared to comply with the terms of the Letter of Credit;

(v) payment by the Issuing Bank in good faith under the Letter of Credit against presentation of a draft or any accompanying document which does not strictly comply with the terms of the Letter of Credit;

(vi) the existence, character, quality, quantity, condition, packing, value or delivery of any property purported to be represented by documents presented in connection with any Letter of Credit or for any difference between any such property and

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the character, quality, quantity, condition, or value of such property as described in such documents;

(vii) the time, place, manner, order or contents of shipments or deliveries of property as described in documents presented in connection with any Letter of Credit or the existence, nature and extent of any insurance relative thereto;

(viii) the solvency or financial responsibility of any party issuing any documents in connection with a Letter of Credit;

(ix) any failure or delay in notice of shipments or arrival of any property;

(x) any error in the transmission of any message relating to a Letter of Credit not caused by the Issuing Bank, or any delay or interruption in any such message;

(xi) any error, neglect or default of any correspondent of the Issuing Bank in connection with a Letter of Credit;

(xii) any consequence arising from acts of God, wars, insurrections, civil unrest, disturbances, labor disputes, emergency conditions or other causes beyond the control of the Issuing Bank;

(xiii) so long as the Issuing Bank in good faith determines that the contract or document appears to comply with the terms of the Letter of Credit, the form, accuracy, genuineness or legal effect of any contract or document referred to in any document submitted to the Issuing Bank in connection with a Letter of Credit; and

(xiv) where the Issuing Bank has acted in good faith and observed general banking usage, any other circumstances whatsoever.

(h) Each Letter of Credit shall also be governed by the most recent version of the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce in effect when such Letter of Credit was issued.

(i) With respect to each outstanding Letter of Credit, Borrower shall pay to the Administrative Agent, for the account of each of the Banks in accordance with its Tranche A Pro Rata Share, a fee equal to the following percent of the average daily maximum amount available to be drawn under such Letter of Credit, calculated in accordance with the following table:

Type of Letter of Credit -----	Fee -----
Performance Letters of Credit	one-half of the Applicable Amount for Financial Letters of Credit, payable in arrears
Financial Letters of Credit	Applicable Amount therefor, payable in arrears
Commercial Letters of Credit	Greater of (i) 0.125% of face amount and (ii) \$400, payable upon issuance

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Letter of Credit fees for Performance Letters of Credit and Financial Letters of Credit shall accrue from the issuance of such Letter of Credit until its expiration or termination and shall be payable quarterly in arrears on each Quarterly Payment Date and such termination or expiration date. Such fees shall be calculated quarterly in arrears; if there is any change in the Applicable Amount during any quarter, the average daily undrawn face amount shall be computed and multiplied by the Applicable Amount separately for each period that such Applicable Amount was in effect during such quarter. These fees are nonrefundable.

(j) Borrower shall pay to the Administrative Agent for the sole account of the Issuing Bank a fronting fee equal to 12.5 basis points per annum on the maximum amount available to be drawn under such Letter of Credit. In addition, Borrower shall pay directly to the Issuing Bank for its sole account its customary documentary and processing charges in accordance with its standard schedule, as from time to time in effect, for any issuance, amendment, transfer, supplement, modification, renewal, extension or other action relating to a Letter of Credit.

2.4 PREPAYMENTS.

(a) Upon Requisite Notice to the Administrative Agent not later than the Requisite Time therefor, Borrower may at any time and from time to time voluntarily prepay Loans in the Minimum Amount therefor in the currency of such Loan. The Administrative Agent will promptly notify each Bank of such Bank's Tranche A or Tranche B Pro Rata Share, as the case may be, of such prepayment.

(b) If Borrower or any of its Subsidiaries applies any Excess Net Proceeds in accordance with Section 7.6(g) to prepay outstanding Debt under this Agreement, Borrower shall apply an amount equal to such Excess Net Proceeds first to prepay Tranche B Loans in full, second to prepay Tranche A Loans in full, third to prepay Swing Line Loans in full, and fourth to deposit cash to be held by the Administrative Agent in an interest-bearing cash collateral account as collateral for any Letter of Credit Usage. The combined Commitments shall also be reduced by an amount equal to such Excess Net Proceeds in accordance with Section 2.5(a).

(c) If for any reason the Outstanding Tranche A Obligations plus the outstanding principal amount of Swing Line Loans exceed the combined Tranche A Commitments (including, without limitation, by reason of the Administrative Agent from time to time determining the Dollar Equivalent of outstanding Obligations in accordance with Section 1.8) as in effect or as reduced or because of any limitation set forth in this Agreement or otherwise, Borrower shall immediately first prepay the Swing Line Loans in full, second prepay Tranche A Loans in full, and third deposit cash to be held by the Administrative Agent in an interest-bearing cash collateral account as collateral for any Letter of Credit Usage, in an aggregate amount equal to such excess.

(d) If for any reason the Outstanding Tranche B Obligations exceed the combined Tranche B Commitments (including, without limitation, by reason of the Administrative Agent from time to time determining the Dollar Equivalent of outstanding Obligations in accordance with Section 1.8) as in effect or as reduced or because of any limitation set forth in this

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Agreement or otherwise, Borrower shall immediately prepay Tranche B Loans in an aggregate amount equal to such excess.

(e) Any prepayment of a Loan other than a Base Rate Loan shall be accompanied by all accrued interest thereon, together with the costs set forth in Section 3.6.

(f) Each payment or prepayment of outstanding Loans must be made ratably among all Banks having Tranche A Loans and each payment or prepayment of outstanding Tranche B Loans must be made ratably among all Banks having Tranche B Loans.

2.5 MANDATORY AND VOLUNTARY REDUCTION OR TERMINATION OF TRANCHE A AND TRANCHE B COMMITMENTS.

(a) Upon any date that the Loans are prepaid pursuant to Section 2.4(b), the combined Tranche A Commitments shall automatically be reduced as of the date of such required prepayment by an amount equal to such required prepayment of Tranche A Loans, the combined Tranche B Commitments shall automatically be reduced as of the date of such required prepayment by an amount equal to such required prepayment of Tranche B Loans, and the Swing Line Loan Commitment shall automatically be reduced as of the date of such required prepayment by an amount equal to such required prepayment of Swing Line Loans.

(b) Upon Requisite Notice to the Administrative Agent not later than the Requisite Time therefor, Borrower shall have the right, at any time and from time to time, without penalty or charge, to permanently and irrevocably, reduce the combined Tranche A Commitments or the combined Tranche B Commitments in a Minimum Amount therefor, or terminate the then unused portion of the combined Tranche A Commitments or the combined Tranche B Commitments.

(c) The Administrative Agent shall promptly notify the Banks of any reduction or the termination of the Tranche A or Tranche B Commitments under this Section. Any mandatory or voluntary reduction or termination of the combined Tranche A Commitments or combined Tranche B Commitments shall be accompanied by payment of all accrued and combined unpaid facility fees with respect to the portion of the combined Tranche A Commitments or combined Tranche B Commitments being reduced or terminated. Each Bank's Tranche A Commitments or Tranche B Commitment shall be reduced by an amount equal to such Bank's Tranche A Pro Rata Share or Tranche B Pro Rata Share, as the case may be, times the amount of such reduction.

2.6 OPTIONAL INCREASE OF THE TRANCHE A AND TRANCHE B COMMITMENTS.

(a) From time to time, Borrower may propose to increase the combined Tranche A and Tranche B Commitments by an aggregate amount of not less than the Minimum Amount therefor (a "Proposed Combined Commitments Increase") in the manner set forth below; provided that (i) the then current combined Tranche A Commitments plus the increase in the Tranche A Commitments included in the Proposed Combined Commitments Increase shall not be greater than the Maximum Permitted Combined Tranche A Commitments and the then current combined Tranche B Commitments plus the increase in the Tranche B Commitments included in the Proposed Combined Commitments Increase shall not be greater than the Maximum Permitted Combined Tranche B Commitments; (ii) the ratio of the increase in the

combined Tranche A Commitments to the increase in the combined Tranche B Commitments included in the Proposed Combined Commitments Increase is equal to the then current ratio of the Tranche A Commitments to the Tranche B Commitments; (iii) immediately prior to and after giving effect to the Proposed Combined Commitments Increase no event has occurred and is continuing that constitutes an Event of Default or Default; and (iv) Borrower shall pay any costs payable under Section 3.6 if and to the extent any Offshore Rate Loans are prepaid on the effective date of such increase (the "Increase Date").

(b) Borrower may request a Proposed Combined Commitments Increase by delivering to the Administrative Agent, by Requisite Notice not later than the Requisite Time therefor. Such notice (i) shall specify the Proposed Combined Commitments Increase and the proposed Increase Date, and (ii) may specify Eligible Assignees that are not Banks (the "Third Parties"), to whom Borrower desires to offer all or a portion of the Proposed Combined Commitments Increase, to the extent not committed to by the existing Banks. The Administrative Agent shall in turn promptly notify each Bank by sending each Bank a copy of such notice.

(c) Each Bank, in its sole discretion, may irrevocably offer to commit to all or a portion of the Proposed Combined Commitments Increase in increments of \$1,000,000 (the "Proposed Increased Commitment") by notifying the Administrative Agent (which shall give prompt notice thereof to Borrower) by Requisite Notice not later than the Requisite Time therefor. The ratio of the increase in the combined Tranche A Commitments to the increase in the combined Tranche B Commitments included in each Bank's Proposed Increased Commitment shall be equal to the then current ratio of the Tranche A Commitments to the Tranche B Commitments. If the amount of Proposed Increased Commitments exceeds the Proposed Combined Commitments Increase, such Proposed Increased Commitments shall be allocated on a pro rata basis based on the ratio of each Bank's Proposed Increased Commitment, if any, to the aggregate of all Proposed Increased Commitments. Each Bank that submits a Proposed Increased Commitment shall execute and deliver to the Administrative Agent an Increased Commitment Acceptance therefor.

(d) If any portion of the Proposed Combined Commitments Increase not committed to by existing Banks equals or exceeds \$5,000,000 (the "Increase Remainder"), the Administrative Agent shall notify each Third Party thereof four Business Days before the Increase Date. Each Third Party may irrevocably commit to all or a portion of the Increase Remainder in a minimum principal amount of \$5,000,000 (a "Proposed New Commitment") by notifying the Administrative Agent by Requisite Notice (who shall give prompt notice thereof to Borrower) by the Requisite Time therefor. The ratio of the increase in the combined Tranche A Commitments to the increase in the combined Tranche B Commitments included in each Third Party's Proposed New Commitment shall be equal to the then current ratio of the Tranche A Commitments to the Tranche B Commitments. If there are Third Parties willing to commit to more than the Increase Remainder, Borrower, in consultation with the Administrative Agent, may allocate the Increase Remainder in its sole discretion, but keeping the \$5,000,000 minimum requirement. Each Third Party that submits a Proposed New Commitment shall execute and deliver to the Administrative Agent a New Commitment Acceptance therefor. By executing and delivering a New Commitment Acceptance, each Third Party shall be deemed to have agreed with the matters set forth in Section 10.8(c)(iii)-(vi).

(e) If the commitments of the Banks and Third Parties to the Proposed

Combined Commitments Increase equal the Proposed Combined Commitments Increase, the combined Tranche A Commitments and the Tranche B Commitments shall be increased by the Proposed Combined Commitment Increase on the Increase Date provided the Administrative Agent shall have received on or before the Increase Date certified copies of the resolutions of the Executive Committee of the Board of Directors of Borrower approving such increase of the combined Tranche A Commitments and the Tranche B Commitments, and of all documents evidencing other necessary corporate action, if any, with respect to such increase. Upon any Third Party paying an assignment fee of \$3,500 to the Administrative Agent, any Third Parties shall become a Bank hereunder, and the Administrative Agent shall, promptly following the effective date thereof, provide to Borrower and the Banks a revised Schedule 10.6 giving effect thereto. Borrower agrees that it shall execute and deliver upon request to such Third Party, one or more Notes evidencing that assignee Bank's Tranche A Pro Rata Share and Tranche B Pro Rata Share.

(f) If, after giving effect to the Proposed Combined Commitments Increase, any Bank's revised Tranche A Pro Rata Share of the combined Tranche A Commitments or Tranche B Pro Rata Share of the combined Tranche B Commitments is different than its share of Outstanding Tranche A Obligations or Outstanding Tranche B Obligations, respectively, the Outstanding Tranche A Obligations or Tranche B Obligations, respectively, shall be reallocated among the Banks as follows. On the Increase Date Borrower shall be deemed to have prepaid all outstanding Tranche A Loans or Tranche B Loans, respectively, in accordance with Section 2.4 and reborrowed all Tranche A Loans or Tranche B Loans, respectively, in accordance with Section 2.2 from all Banks ratably in accordance with their revised Tranche A Pro Rata Shares or Tranche B Pro Rata Shares, respectively. Each Bank having a decreased Pro Rata Share (a "Selling Bank") agrees to sell and assign to each other Bank (each a "Buying Bank") such that, after giving effect to such assignments, each Bank's share of all Outstanding Obligations equals its revised Tranche A Pro Rata Share or Tranche B Pro Rata Share, respectively. The Administrative Agent shall distribute to each Selling Bank an amount equal to the difference between its Tranche A Loans or Tranche B Loans so prepaid with interest accrued thereon through the date of such prepayment and, in the case of Loans other than Base Rate Loans, costs set forth in Section 3.6, and the new Tranche A Loans or Tranche B Loans deemed to have been made by it. Such payments shall be deemed to be a payment of the Tranche A Loans or Tranche B Loans by Borrower on the date such payment is received.

(g) If the commitments of the Banks and Third Parties to the Proposed Combined Commitments Increase are less than the Proposed Combined Commitments Increase, the combined Tranche A Commitments and Tranche B Commitments shall not be increased; provided, however, that, unless the combined Proposed Increased Commitments and Proposed New Commitments is zero, Borrower may again propose to increase the combined Tranche A Commitments and Tranche B Commitments pursuant to the terms of this Section 2.6.

2.7 PRINCIPAL AND INTEREST.

(a) If not sooner paid, Borrower shall pay, and promises to pay, the outstanding principal amount of each Tranche A Loan and Swing Line Loan in the currency of such Tranche A Loan and Swing Line Loan on the Tranche A Maturity Date and shall pay, and promises to

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pay, the outstanding principal amount of each Tranche B Loan in the currency of such Tranche B Loan on the Tranche B Maturity Date.

(b) Subject to subsection (e), Borrower shall pay interest on the unpaid principal amount of the Tranche A Loans (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law) in the currency of such Tranche A Loan from the date borrowed until paid in full (whether by

acceleration or otherwise) on each Interest Payment Date for each type of Tranche A Loan at a rate per annum equal to the applicable interest rate determined in accordance with the definition of such type of Tranche A Loan, plus, if applicable, the Applicable Amount.

(c) Subject to subsection (e), Borrower shall pay interest on the unpaid principal amount of the Tranche B Loans (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law) in the currency of such Tranche B Loan from the date borrowed until paid in full (whether by acceleration or otherwise) on each Interest Payment Date for each type of Tranche B Loan at a rate per annum equal to the applicable interest rate determined in accordance with the definition of such type of Tranche B Loan, plus, if applicable, the Applicable Amount.

(d) Subject to subsection (e), Borrower shall pay interest on the unpaid principal amount of the Swing Line Loans (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law) in the currency of such Swing Line Loan from the date borrowed until paid in full (whether by acceleration or otherwise) on each Interest Payment Date at a rate per annum equal to the Base Rate, plus, if applicable, the Applicable Amount.

(e) If any amount payable by Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), it shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate. Accrued and unpaid interest on past due amounts (including, without limitation, interest on past due interest) shall be compounded monthly, on the last day of each calendar month, to the fullest extent permitted by applicable Laws and payable upon demand.

2.8 FEES.

(a) Facility Fee. Borrower shall pay to the Administrative Agent, for the ratable accounts of the Banks pro rata (i) according to their Tranche A Pro Rata Shares, a facility fee equal to the Applicable Amount times the combined Tranche A Commitments, regardless of usage, (ii) according to their Tranche B Pro Rata Shares, a facility fee equal to the Applicable Amount times the combined Tranche B Commitments, regardless of usage. The facility fee shall accrue from the Closing Date until the Tranche A Maturity Date or the Tranche B Maturity Date, as applicable, and shall be payable quarterly in arrears on each Quarterly Payment Date and on the Tranche A Maturity Date and the Tranche B Maturity Date, as applicable. The facility fee shall be calculated quarterly in arrears; if there is any change in the Applicable Amount during any quarter, the average daily amount shall be computed and multiplied by the Applicable Amount separately for each period that such Applicable Amount was in effect during such quarter.

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(b) Utilization Fee. Borrower shall pay to the Administrative Agent, for the ratable accounts of the Banks pro rata according to their Pro Rata Share, the Utilization Fee, payable quarterly in arrears on each Quarterly Payment Date and on the later of the Tranche A Maturity Date and the Tranche B Maturity Date.

(c) Administrative Fees. Borrower shall pay to the Administrative Agent an administrative fee in such amounts and at such times as heretofore agreed upon by letter agreement dated August 24, 1999 between Borrower and the Administrative Agent. The administrative fee is for the services to be performed by the Administrative Agent in acting as Administrative Agent and is fully earned on the date paid. The administrative fee paid to the Administrative Agent is solely for its own account and is nonrefundable.

2.9 COMPUTATION OF INTEREST AND FEES. Computation of interest on Base Rate Loans shall be calculated on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed; computation of interest on all other types of Loans and all fees under this Agreement shall be calculated on the basis of a year of 360 days and the actual number of days elapsed, which results in a higher yield to the Banks than a method based on a year of 365 or 366 days. Interest shall accrue on each Loan for the day on which the Loan is made; interest shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid. Any Loan that is repaid on the same day on which it is made shall bear interest for one day. Notwithstanding anything in this Agreement to the contrary, interest in excess of the maximum amount permitted by applicable Laws shall not accrue or be payable hereunder, and any amount paid as interest hereunder which would otherwise be in excess of such maximum permitted amount shall instead be treated as a payment of principal.

2.10 MANNER AND TREATMENT OF PAYMENTS AMONG THE BANKS, BORROWER AND THE ADMINISTRATIVE AGENT.

(a) Unless otherwise provided herein, all payments by Borrower or any Bank hereunder shall be made to the Administrative Agent at the Agent's Office not later than the Requisite Time for such type of payment without condition or deduction for, any counterclaim, defense, recoupment or setoff. All payments received after such Requisite Time shall be deemed received on the next succeeding Business Day.

(b) Upon satisfaction of any applicable terms and conditions set forth herein, the Administrative Agent shall promptly make any amounts received in accordance with the prior subsection available in like funds received as follows: (i) if payable to Borrower, by crediting the Designated Deposit Account, and (ii) if payable to any Bank, by wire transfer to such Bank at the address specified in Schedule 10.6. The Administrative Agent's determination, or any Bank's determination not contradictory thereto, of any amount payable hereunder shall be conclusive in the absence of manifest error.

(c) Subject to the definition of "Interest Period," if any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall instead be considered due on the next succeeding Business Day and the extension of time shall be reflected in computing interest and fees.

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(d) Unless Borrower or any Bank has notified the Administrative Agent prior to the date any payment to be made by it is due, that it does not intend to remit such payment, the Administrative Agent may, in its discretion, assume that Borrower or the Bank, as the case may be, has timely remitted such payment and may, in its discretion and in reliance thereon, make available such payment to the Person entitled thereto. If such payment was not in fact remitted to the Administrative Agent, then:

(i) if Borrower failed to make such payment, each Bank shall forthwith on demand repay to the Administrative Agent the amount of such assumed payment made available to such Bank, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Bank to the date such amount is repaid to the Administrative Agent at the Federal Funds Rate or, in the case of a payment in an Approved Offshore Currency, the Offshore Currency Overnight Rate; and

(ii) if any Bank failed to make such payment, such Bank shall on the Business Day following such Borrowing Date pay to the Administrative Agent the amount of such assumed payment made available to Borrower, together with interest thereon in respect of each day from and including the date such amount was made available by the

Administrative Agent to Borrower to the date such amount is paid to the Administrative Agent at the Federal Funds Rate or, in the case of a payment in an Approved Offshore Currency, the Offshore Currency Overnight Rate. Nothing herein shall be deemed to relieve any Bank from its obligation to fulfill its Tranche A Commitment or Tranche B Commitment or to prejudice any rights which the Administrative Agent or Borrower may have against any Bank as a result of any default by such Bank hereunder.

2.11 FUNDING SOURCES. Nothing in this Agreement shall be deemed to obligate any Bank to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Bank that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.12 EXTENSION OF TRANCHE A AND TRANCHE B MATURITY DATES.

(a) Tranche A Maturity Date. (i) At the request of Borrower and with the written consent of all of the Banks having a Tranche A Commitment (which may be given or withheld in the sole and absolute discretion of each Bank) pursuant to this Section the Tranche A Maturity Date may be extended for one-year periods, provided no Default or Event of Default has occurred and is continuing at the time of such request. Not earlier than three months prior to, nor later than 30 days prior to, each anniversary of the Closing Date, Borrower may request by Requisite Notice made to the Administrative Agent (who shall promptly notify the Banks) a one year extension of the Tranche A Maturity Date. Such request shall include a certificate signed by a Responsible Officer stating that (i) the representations and warranties contained in Section 5 shall be true and correct on and as of the date of such certificate and (ii) no Default or Event of Default has occurred and is continuing. Each Bank shall, within 20 Business days of the Administrative Agent delivering such notice to such Bank, notify in writing the Administrative Agent whether it consents to or declines such request, provided that any Bank failing to so notify the Administrative Agent within such period shall be deemed to decline such request.

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(ii) The Administrative Agent shall, after receiving the notifications from all of the Banks having a Tranche A Commitment or the expiration of such period, whichever is earlier, notify Borrower and the Banks of the results thereof. If all of the Banks having a Tranche A Commitment have consented, then the Tranche A Maturity Date shall be extended for one year.

(b) Tranche B Maturity Date. (i) Borrower may, no earlier than 50 days and not later than 30 days prior to the then effective Tranche B Maturity Date (as it may be extended from time to time pursuant hereto), and in any event not earlier than Borrower's delivery to the Banks of the audited financial statements referred to in Section 6.1(b) for the then most recently ended fiscal year, request in writing to the Administrative Agent (who shall promptly notify the Banks) that the Tranche B Maturity Date be extended for an additional 364 days. After Borrower's request, each Bank having a Tranche B Commitment may, in its sole discretion, consent or not consent to such extension by giving written notice thereof to the Administrative Agent within 21 days after receipt of notice of the extension request. Each Bank's annual decision as to whether to extend the Tranche B Maturity Date shall be based on such information it deems relevant including in its discretion a new credit analysis utilizing then current information in respect of the Borrower's business, financial condition and operations and other information furnished by the Borrower. Failure of any Bank having a Tranche B Commitment to respond on or before such 21 day period shall be deemed to be a refusal of such request by such Bank. The Administrative Agent shall promptly notify each Bank and the Borrower of any Bank's decision to reject the proposed extension.

(ii) If, in accordance with the provisions of this Section

2.12, a Bank consents to the extension to the Tranche B Maturity Date, the Tranche B Maturity Date for such Bank shall be extended for 364 days from the then current Tranche B Maturity Date, without any further action by the Borrower or such Bank.

(iii) If any Bank having a Tranche B Commitment does not consent to a request for an extension of the Tranche B Maturity Date, or is deemed not to have consented to the requested extension, and the Tranche B Maturity Date has been extended for the other Bank(s) having a Tranche B Commitment: (i) the Borrower may, prior to the end of the non-extended Tranche B Maturity Date, terminate such Bank's Tranche B Commitment under this Agreement upon payment in full of principal and interest on all Tranche B Loans made by such Bank together with such other sums, if any, that may be due by reason of such prepayment and any fees owing to such Bank and, in connection with such termination, the Borrower may replace such non-consenting Bank with a new Bank or increase the Tranche B Commitment of an existing Bank, in each case pursuant to Section 2.6 as if the Tranche B Commitment of the non-consenting Bank were a request for an increase in the Tranche B Commitments in the amount of such Tranche B Commitments, provided that the time periods for notices set forth in Section 2.6 may, at the options of the Administrative Agent, be shortened to such periods as the Administrative Agent deems reasonable; and (ii) if the Borrower has not previously terminated such non-consenting Bank's Tranche B Commitment under this Agreement and paid principal and interest on the Tranche B Loans held by such non-consenting Bank and other amounts due to such non-consenting Bank as provided above, then such principal and interest and other amounts due to such non-consenting Bank shall be due and payable on the non-extended Tranche B

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Maturity Date and the Tranche B Maturity Date shall not be extended in so far as such non-consenting Bank is concerned.

SECTION 3 TAXES, YIELD PROTECTION AND ILLEGALITY

3.1 TAXES. Each payment of any amount payable by Borrower under this Agreement or any other Loan Document shall be made free and clear of, and without reduction by reason of, any Applicable Taxes. To the extent that Borrower is obligated by applicable Laws to make any deduction or withholding on account of Applicable Taxes from any amount payable to any Bank or the Issuing Bank under this Agreement, Borrower shall promptly notify the Administrative Agent of such fact and shall (a) make such deduction or withholding and pay the same to the relevant Governmental Authority and (b) pay such additional amount directly to that Bank or the Issuing Bank as is necessary to result in that Bank or the Issuing Bank receiving a net after-Applicable Tax amount equal to the amount to which that Bank or the Issuing Bank would have been entitled under this Agreement absent such deduction or withholding. Within 30 days after the date of any payment by Borrower of any amounts pursuant to this section, Borrower shall furnish to the Administrative Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Administrative Agent.

3.2 INCREASED COSTS. If any Bank or the Issuing Bank determines that any Laws or guidelines (whether or not having the force of law), or compliance therewith, have the effect of increasing its cost of agreeing to make or making, agreeing to issue or participating in, funding or maintaining any Loans or Letters of Credit, then Borrower shall, upon demand by such Bank or the Issuing Bank (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Bank or the Issuing Bank additional amounts sufficient to compensate such Bank or the Issuing Bank for such increased cost.

3.3 CAPITAL ADEQUACY. If any Bank or the Issuing Bank determines that

any Laws regarding capital adequacy, or compliance by such Bank or the Issuing Bank (or its Lending Office) or any corporation controlling the Bank or the Issuing Bank, with any request, guideline or directive regarding capital adequacy (whether or not having the force of law) of any Governmental Authority not imposed as a result of the Issuing Bank's, such Bank's or such corporation's failure to comply with any other Laws, affects or would affect the amount of capital required or expected to be maintained by such Bank, the Issuing Bank or any corporation controlling such Bank or the Issuing Bank and (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy and such Bank's and the Issuing Bank's desired return on capital) determines in good faith that the amount of such capital is increased, or the rate of return on capital is reduced, as a consequence of its obligations under this Agreement, then upon demand of such Bank or the Issuing Bank (with a copy to the Administrative Agent), Borrower shall pay to such Bank or the Issuing Bank, from time to time as specified in good faith by such Bank or the Issuing Bank, additional amounts sufficient to compensate such Bank or the Issuing Bank in light of such circumstances, to the extent reasonably allocable to such obligations under this Agreement.

3.4 ILLEGALITY. If any Bank determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Bank or its applicable Lending

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Office to make, maintain or fund Offshore Rate Loans, or materially restricts the authority of such Bank to purchase or sell, or to take deposits of, Dollars in the London or interbank market, or to determine or charge interest rates based upon the Offshore Rate, then, on notice thereof by the Bank to Borrower through the Administrative Agent, any obligation of that Bank to make Offshore Rate Loans shall be suspended until the Bank notifies the Administrative Agent and Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, Borrower shall, upon demand from such Bank (with a copy to the Administrative Agent), prepay or Convert all Offshore Rate Loans of that Bank, either on the last day of the Interest Period thereof, if the Bank may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if the Bank may not lawfully continue to maintain such Offshore Rate Loan. Each Bank agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Bank, otherwise be materially disadvantageous to such Bank.

3.5 INABILITY TO DETERMINE RATES. If, in connection with any Request for Extension of Credit, the Administrative Agent determines that (a) deposits in the relevant currency are not being offered to Banks in the London interbank market for the applicable amount and Interest Period of the requested Loan, (b) adequate and reasonable means do not exist for determining the underlying interest rate (other than the Base Rate) for the Loans requested therein, or (c) such underlying interest rates do not adequately and fairly reflect the cost to the Banks of funding such Loan, the Administrative Agent will promptly so notify Borrower and each Bank. Thereafter, the obligation of the Banks to make or maintain Loans based upon such affected interest rate or such currency shall be suspended until the Administrative Agent revokes such notice. Upon receipt of such notice, Borrower may revoke any pending Request for Extension of Credit for such type of Loan or, failing that, be deemed to have converted such Request for Extension of Credit into a request for Base Rate Loans in the amount specified therein.

3.6 BREAKFUNDING COSTS. Upon Continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day in the applicable Interest Period (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise and including any such action required under this Section 3), or upon the failure of Borrower (for a reason other than the failure of a Bank to make a Loan) to borrow, Continue or Convert any Loan other than a Base Rate Loan on the date or in the amount specified in any

Request for Extension of Credit, then Borrower shall, upon demand made by any Bank (with a copy to the Administrative Agent), reimburse each Bank and hold each Bank harmless from any loss or expense which the Bank may sustain or incur as a consequence thereof, including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained.

3.7 MATTERS APPLICABLE TO ALL REQUESTS FOR COMPENSATION.

(a) The Administrative Agent and any Bank shall provide reasonable detail to Borrower regarding the manner in which the amount of any payment to the Administrative Agent or that Bank under this Section 3 has been determined, concurrently with demand for such payment. The Administrative Agent's or any Bank's determination of any amount payable under this Section 3 shall be conclusive in the absence of manifest error.

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(b) For purposes of calculating amounts payable under this Section 3 any Loan shall be deemed to have been funded at the applicable interest rate set forth in the definition thereof whether or not such Loan was, in fact, so funded.

(c) All of Borrower's obligations under this Section 3 shall survive termination of the Commitments and payment in full of all Outstanding Obligations.

SECTION 4 CONDITIONS

4.1 INITIAL EXTENSION OF CREDIT. The obligation of each Bank to make the initial Loan to be made by it, or the obligation of the Issuing Bank to issue the initial Letter of Credit (as applicable), is subject to the following conditions precedent, each of which shall be satisfied prior to the making of the initial Loans or the issuance of the initial Letter of Credit (unless all of the Banks, in their sole and absolute discretion, shall agree otherwise):

(a) The Administrative Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Officer, each dated as of the Closing Date and each in form and substance satisfactory to the Administrative Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Administrative Agent otherwise agrees or directs):

(1) at least one executed counterpart of this Agreement, together with arrangements satisfactory to the Administrative Agent for additional executed counterparts, sufficient in number for distribution to the Banks and Borrower;

(2) Notes executed by Borrower in favor of each Bank requesting a Note, each in a principal amount equal to that Bank's Tranche A Pro Rata Share and Tranche B Pro Rata Share, as applicable;

(3) the Material Subsidiary Guaranty executed by each Material Subsidiary;

(4) with respect to Borrower and each Material Subsidiary, such documentation as the Administrative Agent may require to establish the due organization, valid existence and good standing of Borrower and each such Material Subsidiary, its qualification to engage in business in each material jurisdiction in which it is engaged in business or required to be so qualified, its authority to execute, deliver and perform any Loan Documents to which it is a party, the identity, authority and capacity of each Responsible Officer thereof authorized

to act on its behalf, including certified copies of articles of incorporation and amendments thereto, bylaws and amendments thereto, certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, certificates of Responsible Officers, and the like;

(5) the Opinion of Counsel;

(6) the Opinion of O'Melveny & Myers LLP, special counsel to the Administrative Agent, substantially in the form of Exhibit J;

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(7) a certificate signed by a Responsible Officer setting forth the Leverage Ratio as of the last day of the most recently ended Fiscal Quarter;

(8) a certificate signed by a Responsible Officer certifying that the conditions specified in Sections 4.1(d) and 4.1(e) have been satisfied; and

(9) such other assurances, certificates, documents, consents or opinions as the Administrative Agent reasonably may require.

(b) The fees payable on the Closing Date shall have been paid.

(c) Attorney Costs of Bank of America to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute Bank of America's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between Borrower and Bank of America).

(d) The representations and warranties of Borrower contained in Section 5 shall be true and correct.

(e) Borrower and each Material Subsidiary shall be in compliance with all the terms and provisions of the Loan Documents, and giving effect to the initial Loan (or initial Letter of Credit, as applicable) no Default or Event of Default shall have occurred and be continuing.

(f) Since June 30, 1999, no Material Adverse Effect shall have occurred.

(g) Borrower and its Subsidiaries shall have completed and delivered to the Administrative Agent the assessment review regarding Borrower's programs for dealing with the Year 2000 Problem (as defined in Section 5.14), and the Administrative Agent and Requisite Banks shall have been satisfied as to the Borrower's responses therein.

4.2 ANY EXTENSION OF CREDIT. The obligation of each Bank to make any Extension of Credit is subject to the following conditions precedent:

(a) the representations and warranties of Borrower contained in Section 5 are true and correct in all material respects as though made on and as of the above date (except to the extent that such representations and warranties expressly relate solely to an earlier date and then shall be correct as of such date), before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no Default or Event of Default has occurred and is continuing, or would result from such proposed Extension of Credit.

(c) the Administrative Agent shall have timely received a duly completed Request for Extension of Credit or Letter of Credit Application, as applicable, by Requisite Notice by the Requisite Time therefor;

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(d) on the date of the first Extension of Credit hereunder, evidence that the Existing Credit Agreements have been, or concurrently therewith are being, terminated and that all amounts owing thereunder have been, or concurrently therewith are being, paid in full; provided, however, that letters of credit issued thereunder set forth on Schedule 7.1 may remain outstanding so long as the commitments and covenants (except for those covenants and agreements relating to such outstanding letters of credit and reimbursement of drawings thereunder) under the Existing Credit Agreements are otherwise terminated; and

(e) the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent, such other assurances, certificates, documents or consents related to the foregoing as the Administrative Agent or Requisite Banks reasonably may require.

SECTION 5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Administrative Agent and the Banks that:

5.1 DUE INCORPORATION, ETC. Each of Borrower and the Material Subsidiaries are corporations duly organized, validly existing and in good standing under the laws of the jurisdiction of their organization and have all requisite corporate power and authority to own or lease and operate their respective properties and to carry on their businesses as now conducted, and to execute and deliver, and to perform all of their obligations under, any Loan Document to which they are a party, and the transactions and documents contemplated hereby to which they are a party. Each of Borrower and its Subsidiaries are duly qualified or licensed to do business as foreign corporations in good standing in all jurisdictions in which they own or lease assets and property or in which the conduct of their businesses requires them to so qualify or be licensed, except where the failure to so qualify or be licensed would not have a Material Adverse Effect. Each Subsidiary of Borrower on the date hereof is set forth on Schedule 5.1.

5.2 AUTHORIZATION OF BORROWING, ETC.

(a) Authorization of Borrowing, No Conflict. The execution, delivery and performance by Borrower and each Material Subsidiary of Borrower that is a party to a Loan Document of the Loan Documents, the payment and performance of all Obligations, and the issuance, delivery and payment of the Letters of Credit and the consummation of the transactions contemplated hereby are within each such entity's corporate powers, have been duly authorized by all necessary corporate action by Borrower and each Material Subsidiary of Borrower which is a party to a Loan Document, do not contravene (i) Borrower's and such Material Subsidiary's certificate of incorporation or by-laws, or (ii) any law, rule, regulation (including, without limitation, Regulation U or X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award or any contractual restriction binding on or affecting Borrower or such Material Subsidiary or any of its properties, and do not result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties; neither Borrower nor any of its Subsidiaries is in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination, award or restriction, in any respect which is likely to have a Material Adverse Effect.

(b) Governmental Consents. No authorization, consent, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is currently or is reasonably expected to be required on the part of Borrower or any Material Subsidiary of Borrower that is a party to a Loan Document for the due execution, delivery or performance by Borrower or any of its Material Subsidiaries of any Loan Document, the payment and performance of the Obligations by Borrower or any of its Subsidiaries, and the issuance, delivery and payment of the Letters of Credit and the consummation of the transactions contemplated hereby, except such authorizations, consents, approvals, other actions, notices or filings which, if not obtained, either (i) would not adversely affect the ability of Borrower and each of its Subsidiaries that is a party to a Loan Document to perform the transactions contemplated by the Loan Documents, or (ii) would not have a Material Adverse Effect.

(c) Due Execution and Delivery; Binding Obligations. This Agreement and each other Loan Document, if any, have been, or will be, duly executed and delivered by Borrower and each of its Material Subsidiaries which is a party thereto. This Agreement and each other Loan Document, if any, and the Obligations are, or will be, legally valid and binding obligations of Borrower and each of its Material Subsidiaries which is a party thereto, enforceable against Borrower or such Material Subsidiary in accordance with their respective 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.

5.3 FINANCIAL CONDITION. The unaudited consolidated balance sheet of Borrower and its Subsidiaries dated June 30, 1999 and the related consolidated statements of income and cash flows, copies of which have been furnished to each Bank, were prepared in conformity with GAAP. All financial statements delivered to Banks pursuant to Section 6.1 hereof after the Closing Date will fairly present the consolidated financial position of Borrower and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of Borrower and its Subsidiaries for each of the periods covered thereby, subject, in the case of any unaudited interim financial statements, to changes resulting from normal year-end adjustments. Since June 30, 1999, there has been no material adverse change in the business, condition (financial or otherwise), operations or properties of Borrower or Borrower and its Subsidiaries taken as a whole.

5.4 ABSENCE OF LITIGATION; LITIGATION DESCRIPTION. No actions, suits, investigations, litigation or proceedings are pending or, to the knowledge of Borrower, threatened against or affecting Borrower or any of its Subsidiaries or the properties of Borrower or any such Subsidiary before any court, arbitrator or governmental agency, department, commission, board, bureau or instrumentality, domestic or foreign, (a) that would have a Material Adverse Effect, or (b) which purports to affect the legality, validity or enforceability of this Agreement and any other Loan Document.

5.5 PAYMENT OF TAXES. Borrower and each of its Subsidiaries have filed or caused to be filed all tax returns (Federal, state, local and foreign) required to be filed and paid all amounts of taxes shown thereon to be due, including interest and penalties, except for (a) such taxes as are being contested in good faith and by proper proceedings and with respect to which appropriate

reserves are being maintained by Borrower or any such Subsidiary, as the case may be or (b) those the failure to pay which would not have a Material Adverse Effect.

5.6 GOVERNMENTAL REGULATION. Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or the Investment Company Act of 1940, each as amended, or to any Federal or state statute or regulation limiting its ability to incur indebtedness for money borrowed. No Subsidiary is subject to any regulation that would limit the ability of Borrower to enter into or perform its obligations under this Agreement.

5.7 NOT A PURPOSE CREDIT. Borrower and its Subsidiaries are not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U or X issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Loan or Letter of Credit, will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

5.8 ERISA.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

5.9 DISCLOSURE. No representation or warranty of Borrower or any Subsidiary of Borrower contained in any Loan Document (including any Schedule furnished in connection herewith) or any other document, certificate or written statement furnished to the Administrative

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Agent or any Bank by or on behalf of Borrower for use in connection with the transactions contemplated by this Agreement contains any untrue statement of a material fact or omits to state a material fact (known to Borrower in the case

of any documents not furnished by it) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which the same were made. The projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the Persons responsible for preparing such projections and pro forma financial information to be reasonable at the time made, it being recognized by the Banks that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There are no facts known to Borrower (other than matters of a general economic nature) that have had or could reasonably be expected to have a Material Adverse Effect that have not been disclosed herein or in the other documents, certificates and written statements referred to in this Section 5.9.

5.10 INSURANCE. Borrower and its Subsidiaries have in full force insurance coverage of their respective properties, assets and business (including casualty, general liability, products liability and business interruption insurance) that is (a) no less protective in any material respect than the insurance Borrower and its Subsidiaries have carried in accordance with their past practices or (b) prudent given the nature of the business of Borrower and its Subsidiaries and the prevailing practice among companies similarly situated.

5.11 ENVIRONMENTAL MATTERS. (a) Borrower and each of its Subsidiaries is in compliance in all material respects with all Environmental Laws the non-compliance with which can reasonably be expected to have a Material Adverse Effect and (b) there has been no "release or threatened release of a hazardous substance" (as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.) or any other release, emission or discharge into the environment of any hazardous or toxic substance, pollutant or other materials from Borrower's or its Subsidiaries' property other than as permitted under applicable Environmental Law and other than those which would not have a Material Adverse Effect. Other than disposals for which Borrower has been indemnified in full or disposals prior to the Closing Date which would not have a Material Adverse Effect, all "hazardous waste" (as defined by the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (1976) and the regulations thereunder, 40 CFR Part 261 ("RCRA")) generated at Borrower's or any Subsidiaries' properties and removed for disposal have in the past been and shall continue to be disposed of at sites which maintain valid permits under RCRA and any applicable state or local Environmental Law.

5.12 PERFORMANCE OF AGREEMENTS. Neither Borrower nor any of its Subsidiaries is in default in the performance, observance or fulfillment of any of the obligations, covenants, or conditions contained in any contractual obligation of Borrower or of such Subsidiary, except where the consequences, direct or indirect, of such default or defaults, if any, has not had and could not reasonably be expected to have a Material Adverse Effect and no condition exists that, with the giving of due notice or the lapse of time or both, would constitute such a default, except where the consequences, direct or indirect, of such default, if any, has not had and could not reasonably be expected to have a Material Adverse Effect.

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5.13 SOLVENCY. After giving effect to the transactions contemplated by the Loan Documents and the payment of all fees related thereto and hereto, as of the Closing Date Borrower and its Subsidiaries on a consolidated basis are Solvent and each of the Material Subsidiaries is Solvent.

5.14 YEAR 2000. Borrower has (a) conducted a review and assessment of all areas within its and each of its Subsidiaries' business and operations (including those affected by customers and vendors) that could be adversely

affected by the "Year 2000 Problem" (that is, the risk that computer applications and devices containing imbedded computer chips used by Borrower or any of its Subsidiaries (or their respective customers and vendors) may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999), (b) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and (c) to date, implemented that plan in accordance with that timetable. Based on the foregoing, Borrower believes that all computer applications and devices containing imbedded computer chips (including those of its and its Subsidiaries' customers and vendors) that are material to its or any of its Subsidiaries' business and operations are reasonably expected on a timely basis to be able to perform properly date-sensitive functions for all dates before and after December 31, 1999 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 6 AFFIRMATIVE COVENANTS

So long as any Loan remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitments remains in force, Borrower shall, and shall cause each of its Subsidiaries to:

6.1 REPORTING REQUIREMENTS. Deliver to the Administrative Agent in form and detail satisfactory to the Administrative Agent and the Requisite Banks, with sufficient copies for each Bank:

(a) as soon as available and in any event within 50 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of Borrower, the consolidated balance sheet of Borrower and its Subsidiaries as of the end of such Fiscal Quarter and the consolidated statements of income and cash flows of Borrower and its Subsidiaries for the period commencing at the end of the previous Fiscal Year and ending with the end of such Fiscal Quarter, certified by the chief accounting officer of Borrower as fairly presenting the financial condition of Borrower and its Subsidiaries as at the dates indicated and the results of their operations for the periods indicated, subject to changes resulting from audit and normal year-end adjustment;

(b) as soon as available and in any event within 100 days after the end of each Fiscal Year of Borrower, a copy of the annual audit report for such Fiscal Year for Borrower and its Subsidiaries, containing financial statements (including a consolidated balance sheet, consolidated statements of income and shareholders' equity and cash flows of Borrower and its Subsidiaries) for such year certified by Ernst & Young LLP or another "Big Five" accounting firm. The certification shall be unqualified (as to going concern, scope of audit and disagreements over the accounting or other treatment of offsets) and shall state that such

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consolidated financial statements present fairly the financial position of Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise stated therein) and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and

(c) together with each delivery of the reports of Borrower and its Subsidiaries pursuant to subsections (a) and (b) above, a Compliance Certificate for the Fiscal Quarter or Fiscal Year, as applicable, executed by the chief accounting officer of Borrower.

6.2 CERTIFICATES, NOTICES AND OTHER INFORMATION. Deliver to the Administrative Agent in form and detail satisfactory to the Administrative Agent and the Requisite Banks, with sufficient copies for each Bank:

(a) as soon as possible and in any event within five days after any Responsible Officer of Borrower becoming aware of the occurrence of any Change of Control and of each Event of Default and of each Default continuing on the date of such statement, a statement of the chief accounting officer of Borrower setting forth details of such Event of Default or event and the action which Borrower has taken and proposes to take with respect thereto;

(b) promptly after any significant change in accounting policies or reporting practices, notice and a description in reasonable detail of such change;

(c) promptly and in any event within 30 days after Borrower or any ERISA Affiliate becomes aware that any ERISA Event referred to in clause (i) of the definition of ERISA Event with respect to any Pension Plan has occurred which might result in liability to the PBGC a statement of the chief accounting officer of Borrower describing such ERISA Event and the action, if any, that Borrower or such ERISA Affiliate has taken or proposes to take with respect thereto;

(d) promptly and in any event within 10 days after Borrower or any ERISA Affiliate becomes aware that any ERISA Event (other than an ERISA Event referred to in (c) above) with respect to any Pension Plan has occurred which might result in liability to the PBGC, a statement of the chief accounting officer of Borrower describing such ERISA Event and the action, if any, that Borrower or such ERISA Affiliate has taken or proposes to take with respect thereto;

(e) promptly and in any event within five Business Days after receipt thereof by Borrower or any ERISA Affiliate from the PBGC, copies of each notice from the PBGC of its intention to terminate any Pension Plan or to have a trustee appointed to administer any Pension Plan;

(f) promptly and in any event within seven Business Days after receipt thereof by Borrower or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by Borrower or any ERISA Affiliate concerning (w) the imposition of Withdrawal Liability by a Multiemployer Plan, (x) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (y) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA or (z) the amount

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of liability incurred, or expected to be incurred, by Borrower or any ERISA Affiliate in connection with any event described in clause (w), (x) or (y) above;

(g) promptly after the commencement thereof, notice of all material actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting Borrower or any of its Subsidiaries, of the type described in Section 5.4;

(h) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports that Borrower or any of its Subsidiaries sends to its stockholders generally, and copies of all regular, periodic and special reports, and all registration statements, that Borrower or any of its Subsidiaries files with the Securities and Exchange Commission or any governmental authority that may be substituted therefor, or with any national securities exchange;

(i) promptly after the furnishing thereof, copies of any material correspondence, statement or report furnished to any other holder of the securities of Borrower or any of its Subsidiaries pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Banks pursuant to any other clause of this Section 6.2;

(j) promptly after the occurrence thereof, notice of the receipt by Borrower or any of its Subsidiaries of any notice, order, directive or other communication from a governmental authority alleging violations of or noncompliance with any Environmental Law which could reasonably be expected to have a Material Adverse Effect; and

(k) such other information respecting the condition or operations, financial or otherwise, of Borrower or any of its Subsidiaries as any Bank through the Administrative Agent may from time to time reasonably request.

6.3 MATERIAL SUBSIDIARY GUARANTY. Borrower will cause each of its Material Subsidiaries (and such other domestic Subsidiaries as may be necessary in order to comply with Section 7.14 hereof) promptly to execute and deliver an instrument of joinder to the Material Subsidiary Guaranty, together with such other documents and agreements including, without limitation, legal opinions and resolutions as the Administrative Agent or the Requisite Banks may reasonably request.

6.4 CORPORATE EXISTENCE, ETC. Borrower will, and will cause each of its Subsidiaries to, at all times maintain its fundamental business and preserve and keep in full force and effect its corporate existence (except as permitted under Section 7.6) and all rights, franchises and licenses necessary or desirable in the normal conduct of its business; provided, however, that Borrower shall not be required to maintain any such rights, franchises or licenses or the corporate existence of any Subsidiary (other than any Material Subsidiary) if the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.5 ACCESS AND VISITATION RIGHTS. Borrower will and will cause each of its Subsidiaries to, upon reasonable notice and at any reasonable time during normal business hours and from time to time, permit the Administrative Agent or any of the Banks or any agents or representatives thereof to examine and make copies of and abstracts from the records and books

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of account of, and visit the properties of, Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of Borrower and any of its Subsidiaries with any of their officers or directors and independent public accountants (and by this provision Borrower authorizes said accountants to discuss with the Banks the finances and affairs of Borrower and its Subsidiaries), provided that Borrower shall have the right to have a representative of Borrower present at any such discussion with such officers, directors and independent public accountants.

6.6 PAYMENT OF TAXES, ETC. Borrower will and will cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (a) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (b) all lawful claims that, if unpaid, might by law become a lien upon their property, provided, however, that neither Borrower nor any such Subsidiary shall be required to pay or discharge any such tax, assessment, charge or claim (i) that is being contested in good faith and by proper proceedings and for which appropriate reserves are being maintained, or (ii) the failure to pay or discharge which would not have a Material Adverse Effect.

6.7 MAINTENANCE OF PROPERTIES, ETC. Borrower will and will cause each of its Subsidiaries to maintain and preserve, all of its properties with respect

to which failure to so maintain and preserve would have a Material Adverse Effect.

6.8 COMPLIANCE WITH LAWS, ETC. Borrower will, and will cause each of its Subsidiaries to, perform and promptly comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority (including, without limitation, all Environmental Laws and ERISA) other than those with which the failure to comply would not have a Material Adverse Effect.

6.9 MAINTENANCE OF INSURANCE. Borrower will maintain, and will maintain for each of its Subsidiaries, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks (a) as are usually insured by companies engaged in similar businesses and owning similar properties in the same general areas in which Borrower or such Subsidiary operates, (b) with responsible and reputable insurance companies or associations reasonably satisfactory to Banks and (c) subject to market availability and reasonable price, in amounts and coverages (including deductibles) consistent with industry practice.

6.10 EMPLOYMENT OF TECHNOLOGY, DISPOSAL OF HAZARDOUS WASTE, ETC. Borrower will and will cause each of its Subsidiaries to (a) employ in connection with its use of its property appropriate technology (including, without limitation, appropriate secondary containment) to maintain compliance with any applicable Environmental Law, (b) take all actions identified as necessary to comply with Environmental Law, (c) dispose of any and all "hazardous waste" generated at any of its properties only at facilities and with carriers maintaining valid permits under RCRA and any applicable state and local Environmental Law, and (d) use best efforts to obtain certificates of disposal from all contractors employed by Borrower in connection with the transport or disposal of any "hazardous waste" generated at any of its properties except, with respect to each of the foregoing clauses (a) through (d) where the failure to perform or comply with any of the foregoing would not have a Material Adverse Effect.

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6.11 KEEPING OF BOOKS, ETC. Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and accounts, in which full and correct entries shall be made of all financial transactions and the assets and business of Borrower and each of its Subsidiaries in accordance with GAAP consistently applied and consistent with prudent business practices.

6.12 FURTHER ASSURANCES. Borrower will and will cause each of its Subsidiaries to promptly, upon request by the Administrative Agent or any Bank through the Administrative Agent, correct, any defect or error that may be discovered in any Loan Document or in the execution, acknowledgment or recordation thereof. Promptly upon request by the Administrative Agent or any Bank through the Administrative Agent, Borrower also will, and will cause each Subsidiary to, do, execute, acknowledge, deliver, record, and will cause any such Subsidiary to promptly do, execute, acknowledge, deliver, record, re-record any and all such further acts, termination statements, certificates, assurances and other instruments as the Administrative Agent or any Bank through the Administrative Agent may reasonably require from time to time in order (a) to carry out more effectively the purposes of this Agreement or any other Loan Document, and (b) to better assure, convey, grant, assign, transfer, preserve, protect and confirm unto the Administrative Agent and the Banks the rights granted or now or hereafter intended to be granted to the Administrative Agent and/or the Banks under any Loan Document or under any other instrument executed in connection with any Loan Document to which Borrower is or may become a party.

6.13 USE OF PROCEEDS. Borrower shall use the proceeds of Loans for capital expenditures and for working capital and other general purposes, including Non-Hostile Acquisitions permitted by Section 7.4(c).

6.14 YEAR 2000 COMPLIANCE. Borrower will, and will cause its Subsidiaries to, perform all acts reasonably necessary to insure that they are Year 2000 Compliant (as defined in Section 5.14), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 7 NEGATIVE COVENANTS

So long as any Loan remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitments remains in force, Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

7.1 DEBT. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume, or otherwise become or remain directly or indirectly liable with respect to, any Debt, except:

- (a) Debt incurred pursuant to this Agreement;
- (b) any Material Subsidiary Guaranty;
- (c) Debt in respect of Capital Lease Obligations;
- (d) Contingent Obligations permitted by Section 7.5;

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(e) Borrower and its Subsidiaries may remain liable with respect to any Debt of Borrower and its Subsidiaries existing on the Closing Date (all of which Debt that consists of letters of credit and surety and performance bonds outstanding on the Closing Date and all other of such Debt that is in excess of \$1,000,000 in outstanding principal amount is described in Schedule 7.1) and refinancing thereof; provided that such refinanced Debt shall be on terms no less favorable to Borrower (other than in respect to market interest rate changes) and its Subsidiaries than the Debt being replaced and after giving effect thereto would not result in a Default or Event of Default;

(f) Borrower and its Subsidiaries may become and remain liable with respect to intercompany Debt; provided that all of the intercompany Debt of Borrower to any Subsidiary of Borrower shall be subordinated to the Obligations in accordance with the terms set forth in Exhibit H;

(g) Debt of any Person which becomes a Subsidiary of Borrower or is merged into Borrower or any Subsidiary of Borrower in an amount permitted under Section 7.4(c); and provided such Debt existed at the time such Person became a Subsidiary of Borrower or was so merged and was not created in contemplation of such event and before and immediately after giving effect to such event no Event of Default shall exist and Borrower shall be in compliance with Section 7.7); provided further that any Debt of a Person that is merged into Borrower, is only permitted to the extent it is unsecured unless after giving effect to such merger Borrower is in compliance with Section 7.2;

(h) without duplication of subsections (c), (e) and (g) of this Section 7.1, Borrower and its Subsidiaries may become and remain liable with respect to purchase money Debt in an aggregate principal amount outstanding at any time not in excess of 15% of Consolidated Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)); provided that such Debt is secured only by the property purchased with such Debt; provided further that the loan-to-value ratio of such Debt does not exceed 100% with respect to personal property and 80% with respect

to real property, in each case, at the time of incurrence of any such Debt;

(i) the Subsidiaries of Borrower may become and remain liable with respect to Debt if such Debt is permitted by the last proviso of this Section 7.1;

(j) Borrower and its Subsidiaries may become and remain liable in respect of industrial revenue bonds issued on behalf of Borrower or its Subsidiaries;

(k) Debt in connection with the Receivables Program permitted by Section 7.13; and

(l) without duplication of any of the foregoing clauses, Borrower may create, incur, assume or suffer to exist Debt; provided that such Debt is not secured by any assets of Borrower or any of its Subsidiaries other than as permitted by Section 7.2;

provided that, notwithstanding subsections (a) through (l) of this Section 7.1, the Subsidiaries of Borrower may not create, incur, assume or suffer to exist any Subsidiary Debt in an aggregate principal amount outstanding at any time exceeding 15% of Consolidated Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered

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pursuant to Section 6.1(a) or (b)); provided further that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.1.

7.2 LIENS AND RELATED MATTERS. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or permit to exist any Lien, or file or execute or agree to the execution of any financing statement, on or with respect to, the assets of Borrower or any Subsidiary (including any document or instrument in respect of goods or accounts receivable), whether now owned or hereafter acquired, or any income or profits therefrom, except:

(a) Liens for taxes, assessments or other governmental charges or levies not yet due and payable, and not required to be paid by Borrower or any of its Subsidiaries under Section 6.6;

(b) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, workmen, employees, materialmen and other Liens imposed by law and not required to be paid by Borrower or any of its Subsidiaries under Section 6.6;

(c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(d) minor Liens on the property or assets of Borrower or any of its Subsidiaries which do not in the aggregate materially detract from the value of such property or assets or materially impair their use in the operation of the business of Borrower or such Subsidiary, as the case may be;

(e) the rights of set-off and banker's liens granted or confirmed to the Banks under this Agreement or any other Loan Document and rights of set-off and banker's liens granted or confirmed to the holders of other Debt permitted

under this Agreement or any other Loan Document;

(f) any Liens in existence on property of any Person at the time such Person becomes a Subsidiary of Borrower or is merged into any Subsidiary of Borrower and not created in contemplation of such event;

(g) attachment, judgment and other similar Liens arising in connection with legal proceedings, provided that the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; and provided that any such judgment does not constitute an Event of Default;

(h) Liens created by (i) any Subsidiary of Borrower in favor of Borrower or (ii) any Subsidiary of Borrower in favor of another Subsidiary of Borrower, securing obligations of such Subsidiary owing to Borrower or another Subsidiary of Borrower (which Liens by their terms may not be transferred except to Borrower or another Subsidiary of Borrower);

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(i) Liens created hereunder or under any other Loan Document;

(j) Easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances now or hereafter existing not interfering with the ordinary conduct of business of Borrower or any of its Subsidiaries;

(k) Liens and security interests securing purchase money Debt permitted under Section 7.1(h) and Liens and security interests which are Capital Lease Obligations; provided, however, that no Lien or security interest referred to in this subsection (k) shall extend to or cover any property other than the related property being acquired or leased (as the case may be);

(l) Liens on real or personal property required in connection with the issuance of industrial revenue bonds on behalf of Borrower or its Subsidiaries;

(m) Liens existing on the Closing Date securing Debt listed on Schedule 7.1 and any refinancings thereof permitted pursuant to Section 7.1(e);

(n) Liens created or incurred in connection with the Receivables Program permitted by Section 7.13; and

(o) without duplication of any of the foregoing clauses, other Liens securing obligations of Borrower or its Subsidiaries in an aggregate outstanding principal amount not exceeding \$10,000,000 at any time.

7.3 NEGATIVE PLEDGES; RESTRICTIONS ON DIVIDENDS, ETC. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly:

(a) enter into or remain a party to any agreement prohibiting the creation, incurrence or assumption of any Lien on or with respect to any assets of Borrower, or any Subsidiary, whether now owned or hereafter acquired, or any income or profits therefrom, except for such prohibitions contained in (A) this Agreement and (B) instruments governing any Debt permitted under Section 7.1.

(b) Create or permit to exist or become effective any restriction of any kind on the ability of any Subsidiary to (i) pay dividends or make any other distribution on or with respect to any of its stock or other ownership interests owned by Borrower or any Subsidiary of Borrower, (ii) pay any Debt owed to Borrower or any Subsidiary of Borrower, (iii) make loans or advances to Borrower or any other Subsidiary of Borrower, or (iv) transfer any of its assets to Borrower or any Subsidiary of Borrower, except for such prohibitions contained in this Agreement and for such prohibitions contained in the Senior Debt Documents and in documents relating to the Receivables Program.

7.4 INVESTMENTS AND ACQUISITIONS. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, make or own any Investment in any Person or make, or commit to make any acquisition (whether by purchase of capital stock or assets, merger or otherwise), except:

(a) Cash Equivalents;

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(b) Investments that constitute intercompany Debt and are otherwise permitted by Section 7.1; provided that all of the Debt of Borrower to any Subsidiary of Borrower shall be expressly subordinated to the Obligations in accordance with the terms set forth in Exhibit H;

(c) Non-Hostile Acquisitions by Borrower or any of its Subsidiaries of assets constituting a business unit or the capital stock of any Person provided that (i) Borrower is the surviving entity following such acquisition of assets or capital stock, (ii) Borrower continues in the same type of business currently conducted without material changes in the nature of its business and (iii) Borrower is capable of incurring additional Debt in connection with such acquisition of assets or capital stock without violating any debt or covenant restrictions and without creating an Event of Default;

(d) Borrower and its Subsidiaries may make and maintain Investments in Subsidiaries;

(e) Investments in Joint Ventures existing on the Closing Date and set forth on Schedule 7.4, and after the Closing Date Investments in Joint Ventures not listed on Schedule 7.4 ("Additional Joint Ventures"); provided that (i) any such Joint Venture is in and continues in the same type of business as is conducted by Borrower on the Closing Date, (ii) none of Borrower or any Material Subsidiary is a general partner (or would be liable to the extent of a general partner) of any such Joint Venture, and (iii) at the time of any Investment in an Additional Joint Venture the aggregate Investments made by Borrower and its Subsidiaries in Additional Joint Ventures (after giving effect to the Investment to be made) shall not exceed 15% of the Consolidated Net Worth of Borrower and its Subsidiaries as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b);

(f) Investments in connection with transactions permitted by Section 7.13; and

(g) without duplication of any of the foregoing clauses, other Investments in an aggregate principal amount not exceeding \$10,000,000 in any Fiscal Year; provided that any acquisition must be a Non-Hostile Acquisition.

7.5 CONTINGENT OBLIGATIONS. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or become or be liable with respect to any Contingent Obligation, except:

(a) Borrower and its Subsidiaries may become and remain liable with respect to guaranties resulting from endorsement of negotiable instruments for collection or deposit in the ordinary course of business;

(b) any Material Subsidiary of Borrower may create and become liable with respect to the Material Subsidiary Guaranty;

(c) Borrower may become and remain liable with respect to reimbursement obligations under the Letters of Credit and Borrower may become and remain liable with respect to any other Contingent Obligation created hereunder or under any other Loan Document;

(d) Borrower and its Subsidiaries may become and remain liable with respect to any swap agreement, cap agreement, collar agreement or other similar agreement or arrangement designed to protect Borrower or any of its Subsidiaries against fluctuations in interest rates or commodity prices, so long as such agreement or arrangement is entered into for non-speculative purposes;

(e) Borrower may become and remain liable with respect to guaranties relating to (x) any Debt of its Subsidiaries set forth on Schedule 7.1 and any refinancings thereof permitted pursuant to Section 7.1(e) and (y) without duplication, Debt of its Subsidiaries in an aggregate outstanding amount not to exceed at any time 15% of Consolidated Net Worth (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b));

(f) Borrower and its Subsidiaries may become and remain liable with respect to Contingent Obligations relating to advance payment guaranties, rent guaranties with respect to leases and performance guaranties;

(g) Borrower and its Subsidiaries may become and remain liable with respect to reimbursement obligations under letters of credit other than Letters of Credit issued hereunder, in an aggregate amount outstanding at any time not exceeding \$25,000,000;

(h) the Subsidiaries of Borrower may become and remain liable with respect to Contingent Obligations of the type described in clause (e) of the definition of "Debt" in respect of Debt of Borrower or a Subsidiary of Borrower if such Contingent Obligation is permitted by the provisos following subsection (k) of this Section 7.5;

(i) Contingent Obligations created in connection with transactions permitted by Section 7.13;

(j) Borrower may become and remain liable with respect to guaranties, in an aggregate amount outstanding at any time not exceeding \$30,000,000, in connection with loans made by third parties to employees who are participants in Borrower's stock purchase program, if implemented, to enable such employees to purchase common stock of Borrower.

(k) Borrower and its Subsidiaries may create, incur, assume or suffer to exist any obligations, contingent or otherwise (including, without limitation, obligations as account party under any unsecured letters of credit other than the Letters of Credit), solely in respect of surety and performance bonds and similar obligations; provided that the aggregate amount of all such obligations (including those outstanding on the date hereof) does not exceed \$50,000,000 for Borrower and its Subsidiaries; provided further that such obligations are incurred in the ordinary course of the business of Borrower and its Subsidiaries. The surety and performance bonds in effect on the date hereof are set forth on Schedule 7.1;

provided that, notwithstanding clauses (a) through (k) of this Section 7.5, the Subsidiaries of Borrower may not create, incur, assume or suffer to exist any Subsidiary Debt in an aggregate principal amount outstanding at any time exceeding 15% of Consolidated Net Worth of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)); provided further that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.5.

7.6 RESTRICTIONS ON FUNDAMENTAL CHANGES. Borrower will not, and will not permit any of its Subsidiaries to merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or any portion of its assets or the assets of any division (whether now owned or hereafter acquired) to any Person, except the following, provided that no Event of Default or Default has occurred and is continuing or would result therefrom:

(a) Borrower or any Subsidiary of Borrower may merge or consolidate with or into another entity (including any Subsidiary of Borrower); provided that with respect to any merger with Borrower, Borrower shall be the continuing or surviving corporation and with respect to all other mergers, the continuing or surviving corporation shall be a Subsidiary of Borrower;

(b) Borrower and its Subsidiaries may sell or otherwise dispose of inventory in the ordinary course of business;

(c) Borrower and its Subsidiaries may dispose of used, obsolete, worn out or surplus property in the ordinary course of business;

(d) any Wholly-Owned Subsidiary may transfer any assets to Borrower or to another Wholly-Owned Subsidiary and any other Subsidiary may transfer any assets to Borrower or to another Wholly-Owned Subsidiary;

(e) Borrower may transfer any assets to another Wholly-Owned Subsidiary which has executed and delivered the Material Subsidiary Guaranty, or instrument of joinder with respect thereto, and has otherwise complied with Section 6.3;

(f) Borrower and its Subsidiaries may sell or dispose of assets permitted by Section 7.13 provided that, transactions of the type permitted by Section 7.13 shall not count against any of the quantitative baskets set forth in this Section 7.6; and

(g) without duplication of any of the foregoing clauses, Borrower or any of its Subsidiaries may dispose of up to 15% of its Consolidated Total Assets during any 12-month period, provided that if the Net Proceeds from any Disposition are in excess of 15% of Consolidated Total Assets of Borrower and its Subsidiaries (as shown on the most recent financial statements delivered pursuant to Section 6.1(a) or (b)) ("Excess Net Proceeds"), such Excess Net Proceeds shall, at Borrower's election, either be: (i) reinvested in the business of Borrower or such Subsidiary within 12 months from the date of the receipt of the proceeds from such disposition, or (ii) applied to prepay outstanding Debt other than Subordinated Debt; notwithstanding the foregoing, Borrower or any of its Subsidiaries may only dispose of up to 30% of its Consolidated Total Assets from Closing until the date of such Disposition.

7.7 FINANCIAL COVENANTS.

(a) Leverage Ratio. Borrower will not permit, as of the end of any Fiscal Quarter, the Leverage Ratio to exceed (i) 4.00 to 1.00 during the period ending March 31, 2001, and (ii) 3.5 to 1.00 thereafter.

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(b) Interest Coverage Ratio. Borrower will not permit, as of the end of any Fiscal Quarter, the ratio of (x) Consolidated Adjusted EBITDA to (y) Consolidated Interest Charges for the four Fiscal Quarters ending on such date to be less than (i) 3.50 to 1.00 during the period ending March 31, 2001, and (ii) 4.00 to 1.00 thereafter.

(c) Maximum Senior Leverage Ratio. If any Subordinated Debt is outstanding, Borrower will not permit, as of the end of any Fiscal Quarter, the ratio of (x) Consolidated Funded Debt, plus the amount of outstanding Financial Letters of Credit in excess of \$25,000,000 in the aggregate as of such date, less the outstanding principal amount of Subordinated Debt to (y) Consolidated Adjusted EBITDA for the four Fiscal Quarters ending on such date, plus, if such four Fiscal Quarter period covers the period in which a one time charge relating to restructuring and integration costs is taken, up to \$50,000,000 of such one time restructuring and integration cost charge actually taken by Borrower in 1999 or the first quarter of 2000, to exceed (i) 2.50 to 1.00 during the period ending March 31, 2001, and (ii) 2.00 to 1.00 thereafter.

7.8 DIVIDENDS, ETC. Borrower will not, and will not permit any of its Subsidiaries to, declare or pay any dividends, purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding, or any warrants or other rights to acquire such stock, return any capital to its stockholders as such, or make any distribution of assets to its stockholders as such, or permit any of its Subsidiaries to purchase, redeem, retire or otherwise acquire for value any stock of Borrower or any warrants or other rights to acquire such stock, except that:

(a) Borrower may declare and deliver dividends and distributions payable in common stock of Borrower;

(b) Subsidiaries wholly-owned by Borrower except for directors' qualifying shares or foreign qualifying shares (each a "Wholly-Owned Subsidiary") may declare, pay and deliver dividends and distributions payable in cash, common stock or other assets to Borrower or any other Subsidiary of Borrower; and

(c) so long as no Event of Default or Default has occurred and is continuing or would be caused thereby, Borrower or any Subsidiary of Borrower may purchase, redeem, retire or otherwise acquire for value its capital stock and may declare and pay dividends payable in cash on its capital stock.

7.9 CHANGE IN BUSINESS. Subject to Section 7.6, Borrower will not and will not permit any division or Subsidiary to make, any material change in the nature or conduct of their respective businesses as carried on at the date hereof.

7.10 ERISA. Borrower will not (a) permit any Pension Plan to: (i) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (ii) fail to comply with ERISA or any other applicable Laws; (iii) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA); or (iv) terminate in any manner, which, with respect to each event listed above, could reasonably be expected to result in liability exceeding

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\$10,000,000, or (b) withdraw, completely or partially, from any Multiemployer Plan if to do so could reasonably be expected to result in liability exceeding \$10,000,000.

7.11 CHARTER AND BYLAWS. Borrower will not and will not permit any Material Subsidiary to amend, modify or change in any manner, the Certificate of Incorporation or the Bylaws of Borrower or any such Subsidiary other than an amendment to the Certificate of Incorporation or Bylaws which would not materially impair the interests or the rights of the Banks under any Loan Document.

7.12 TRANSACTIONS WITH SHAREHOLDERS AND AFFILIATES. Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction (including, without limitation, the

purchase, sale, lease or exchange of any property or the rendering of any service) with any direct or indirect holder of 5% or more of any class of equity Securities of Borrower or any Subsidiary, on terms that are less favorable to Borrower or that Subsidiary, as the case may be, than those that might be obtained at the time from Persons who are not such a holder or affiliate; provided that the foregoing restriction shall not apply to (a) any transaction between Borrower and any Wholly-Owned Subsidiary or between any of its Wholly-Owned Subsidiaries including without limitation transactions of the type permitted by Section 7.13 or (b) reasonable and customary fees paid to members of the Boards of Directors, officers, employees or consultants of Borrower and its Subsidiaries for services rendered to 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) amounts payable under agreements with affiliates existing on the Closing Date (d) contributions to employee benefit plans of Borrower or its Subsidiaries, and (e) dividends and distributions permitted under Section 7.8).

7.13 RECEIVABLES PROGRAM. Borrower may, and may permit its Subsidiaries to sell, without recourse, or with recourse not exceeding 5% of the Outstanding Receivables Advances (as defined below), accounts receivable arising in the ordinary course of business pursuant to an accounts receivable purchase facility (such facility being referred to herein as the "Receivables Program"); provided that the aggregate outstanding amount of cash advanced to Borrower and its Subsidiaries under the Receivables Program (the "Outstanding Receivables Advances") shall not at any time exceed \$100,000,000.

7.14 NON-GUARANTOR SUBSIDIARIES. Borrower will not permit its domestic Subsidiaries that are not party to the Material Subsidiary Guaranty to have Consolidated Total Assets in the aggregate which account for 20% or more of the Consolidated Total Assets of Borrower and its domestic Subsidiaries, as determined based upon the most recent financial statements delivered pursuant to Section 6.1.

SECTION 8

EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT

8.1 EVENTS OF DEFAULT. The existence or occurrence of any one or more of the following events, whatever the reason therefor and under any circumstances whatsoever, shall constitute an Event of Default:

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(a) Failure to Make Payments When Due. Borrower shall fail to pay any principal of any Loan when the same becomes due and payable, whether at stated maturity, by acceleration, by notice of prepayment or otherwise; shall fail to pay when due any amount payable to the Issuing Bank in reimbursement of any drawing under any Letter of Credit; or shall fail to pay any interest on any Loan or any other fees or other Obligations due under this Agreement within three Business Days of the date due therefor; or

(b) Breach of Warranty. Any representation or warranty made by Borrower herein (or any of its officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed made; or

(c) Breach of Certain Covenants.

(i) Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 6.4, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.8, 7.9, 7.10, 7.12, or 7.13; or

(ii) Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 6.8, 6.9, 6.10, 7.7 or 7.11 if such failure shall remain unremedied for 10 days after the earlier of (A) the day on which a Responsible Officer of Borrower first obtains

knowledge of such failure, or (B) the day on which written notice thereof shall have been given to Borrower by the Administrative Agent or any Bank; or

(iii) Borrower or any of its Subsidiaries shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or in any other Loan Document, on its part to be performed or observed if such failure shall remain unremedied for 30 days after the earlier of (A) the day on which a Responsible Officer of Borrower first obtains knowledge of such failure, or (B) the day on which written notice thereof shall have been given to Borrower by the Administrative Agent or any Bank; or

(d) Default in Other Agreements. Borrower or any of its Subsidiaries shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least \$10,000,000 (or its equivalent in any Approved Offshore Currency) in the aggregate (but excluding Debt arising under this Agreement) of such Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; or

(e) Debtor Relief Laws, Etc. Borrower or any of Material Subsidiaries institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any material part of its property, or is unable or admits in writing its inability to pay its debts as

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they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for 30 days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its property is instituted without the consent of that Person and continues undismissed or unstayed for 30 days; or

(f) Judgments and Attachments. Any judgment or order for the payment of money in excess of \$10,000,000 (or its equivalent in any Approved Offshore Currency) shall be rendered against Borrower or any of its Subsidiaries, such judgment or order shall remain unsatisfied for a period of at least 30 days and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect. Any non-monetary judgment or order shall be rendered against Borrower or any or its Subsidiaries that is materially adverse to Borrower and its Subsidiaries taken as a whole, such judgment or order shall remain unsatisfied for a period of at least 30 days and either (i) enforcement proceedings shall have been commenced by any Person upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Guaranties. Any provision of the Material Subsidiary Guaranty after delivery thereof or otherwise shall for any reason cease to be valid and binding on any Material Subsidiary executing the Material Subsidiary Guaranty or such Material Subsidiary shall so state in writing; or

(h) ERISA. An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the \$10,000,000; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds the \$10,000,000; or (iii) Borrower or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$10,000,000; or

(i) Change of Control. A Change of Control shall have occurred.

8.2 REMEDIES UPON EVENT OF DEFAULT. Without limiting any other rights or remedies of the Administrative Agent or the Banks provided for elsewhere in this Agreement, or the other Loan Documents, or by applicable Laws, or in equity, or otherwise:

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(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of Default described in Section 8.1(e):

(1) the Commitments and all other obligations of the Administrative Agent or the Banks and all rights of Borrower and any Material Subsidiaries under the Loan Documents shall be suspended without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Banks or the Requisite Banks, as required hereunder, may waive an Event of Default or, without waiving, determine, upon terms and conditions satisfactory to the Banks or Requisite Banks, as the case may be, to reinstate the Commitments and make further Extensions of Credit, which waiver or determination shall apply equally to, and shall be binding upon, all the Banks;

(2) the Issuing Bank may, with the approval of the Administrative Agent on behalf of the Requisite Banks, demand immediate payment by Borrower of an amount equal to the aggregate amount of all outstanding Letters of Credit to be held by the Issuing Bank in an interest-bearing cash collateral account as collateral hereunder; and

(3) the Requisite Banks may request the Administrative Agent to, and the Administrative Agent thereupon shall, terminate the Commitments and/or declare all or any part of the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(b) Upon the occurrence of any Event of Default described in Section 8.1(e):

(1) the Commitments and all other obligations of the Administrative Agent or the Banks and all rights of Borrower and any Material Subsidiary under the Loan Documents shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all the Banks may waive the Event of Default or, without waiving,

determine, upon terms and conditions satisfactory to all the Banks, to reinstate the Commitments and make further Extensions of Credit, which determination shall apply equally to, and shall be binding upon, all the Banks;

(2) an amount equal to the aggregate amount of all outstanding Letters of Credit shall be immediately due and payable to the Issuing Bank without notice to or demand upon Borrower, which are expressly waived by Borrower, to be held by the Issuing Bank in an interest-bearing cash collateral account as collateral hereunder; and

(3) the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(c) Upon the occurrence of any Event of Default, the Banks and the Administrative Agent, or any of them, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to

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notices expressly provided for in any Loan Document), may proceed (but only with the consent of the Requisite Banks) to protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and any Material Subsidiary and such other rights and remedies as are provided by Laws or equity.

(d) The order and manner in which the Banks' rights and remedies are to be exercised shall be determined by the Requisite Banks in their sole discretion, and all payments received by the Administrative Agent and the Banks, or any of them, shall be applied first to Attorney Costs incurred by the Administrative Agent or any Bank, and thereafter paid pro rata to the Banks in the same proportions that the aggregate Obligations owed to each Bank under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Banks, without priority or preference among the Banks. Regardless of how each Bank may treat payments for the purpose of its own accounting, for the purpose of computing Borrower's Obligations hereunder, payments shall be applied first, to the costs and expenses of the Administrative Agent and the Banks, as set forth above, second, to the payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application (ratably, and without duplication, according to the accrued and unpaid interest due under each of the Loan Documents), and third, to the payment of all other amounts (including principal and fees) then owing to the Administrative Agent or the Banks under the Loan Documents. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or prevent the exercise, or continued exercise, of rights or remedies of the Banks hereunder or thereunder or at Laws or in equity.

SECTION 9 THE ADMINISTRATIVE AGENT

9.1 APPOINTMENT AND AUTHORIZATION; "ADMINISTRATIVE AGENT".

(a) Each Bank hereby irrevocably (subject to Section 9.9) appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan

Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Bank, 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 the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to the Administrative 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.

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(b) The Issuing Bank shall act on behalf of the Banks with respect to any Letters of Credit issued by it and the documents associated therewith until such time and except for so long as the Administrative Agent may agree at the request of the Requisite Banks to act for such Issuing Bank with respect thereto; provided, however, that the Issuing Bank shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 9 with respect to any acts taken or omissions suffered by the 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 "Administrative Agent", as used in this Section 9, included the Issuing Bank with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to the Issuing Bank.

9.2 DELEGATION OF DUTIES. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.3 LIABILITY OF ADMINISTRATIVE AGENT. None of the Agent-Related Persons shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Banks for any recital, statement, representation or warranty made by Borrower or any Subsidiary or Affiliate of Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of Borrower or any of Borrower's Subsidiaries or Affiliates.

9.4 RELIANCE BY ADMINISTRATIVE AGENT.

(a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrower),

independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Requisite Banks as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any

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other Loan Document in accordance with a request or consent of the Requisite Banks or all Banks, if required hereunder, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Banks.

(b) For purposes of determining compliance with the conditions specified in Section 4.1, each Bank that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Administrative Agent to such Bank for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to the Bank.

9.5 NOTICE OF DEFAULT. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except 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 Banks, unless the Administrative Agent shall have received written notice from a Bank or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Administrative Agent will notify the Banks 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 requested by the Requisite Banks in accordance with Section 8; provided, however, that unless and until the Administrative Agent has received any such request, 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 Banks.

9.6 CREDIT DECISION. Each Bank acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Bank. Each Bank represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower hereunder. Each Bank also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower. Except for notices, reports and other documents expressly herein required to be furnished to the Banks by the Administrative Agent, the Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, prospects, operations, property, financial and other condition or

creditworthiness of Borrower which may come into the possession of any of the Agent-Related Persons.

9.7 INDEMNIFICATION OF ADMINISTRATIVE AGENT. Whether or not the transactions contemplated hereby are consummated, the Banks shall indemnify upon demand the

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Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so), pro rata, from and against any and all Indemnified Liabilities; provided, however, that no Bank shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Administrative Agent.

9.8 ADMINISTRATIVE AGENT IN INDIVIDUAL CAPACITY. Bank of America and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with Borrower and its Subsidiaries and Affiliates as though Bank of America were not the Administrative Agent or the Issuing Bank hereunder and without notice to or consent of the Banks. The Banks acknowledge that, pursuant to such activities, Bank of America or its Affiliates may receive information regarding Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of Borrower or such Subsidiary) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Administrative Agent or the Issuing Bank.

9.9 SUCCESSOR ADMINISTRATIVE AGENT. The Administrative Agent may, and at the request of the Requisite Banks shall, resign as Administrative Agent upon 30 days' notice to the Banks. If the Administrative Agent resigns under this Agreement, the Requisite Banks shall appoint from among the Banks a successor Administrative Agent for the Banks which successor agent shall be approved by Borrower. If no successor agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Banks and Borrower, a successor agent from among the Banks. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 and Sections 10.3 and 10.11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Banks shall perform all of the duties of the Administrative Agent

hereunder until such time, if any, as the Requisite Banks appoint a successor agent as provided for above. Notwithstanding the foregoing, however, Bank

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of America may not be removed as the Administrative Agent at the request of the Requisite Banks unless Bank of America shall also simultaneously be replaced as "Issuing Bank" hereunder pursuant to documentation in form and substance reasonably satisfactory to Bank of America.

9.10 SYNDICATION AGENT, DOCUMENTATION AGENT, ETC.. The parties hereto hereby acknowledge and agree that in connection with the syndication of the Commitments and Loans, certain Banks hereunder have been or may be designated as a "Co-Agent" or as the "Syndication Agent" or the "Documentation Agent." None of the Banks so designated as a "Co-Agent" or "Syndication Agent" or "Documentation Agent" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks so designated as a "Co-Agent" or "Syndication Agent" or "Documentation Agent" shall have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on any of the Banks so designated in deciding to enter into this Agreement or in taking or not taking action hereunder.

SECTION 10 MISCELLANEOUS

10.1 CUMULATIVE REMEDIES; NO WAIVER. The rights, powers, privileges and remedies of the Administrative Agent and the Banks provided herein or other Loan Document are cumulative and not exclusive of any right, power, privilege or remedy provided by Laws or equity. No failure or delay on the part of the Administrative Agent or any Bank in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy. The terms and conditions of Section 9 are inserted for the sole benefit of the Administrative Agent and the Banks; the same may be waived in whole or in part, with or without terms or conditions, in respect of any Loan or Letter of Credit without prejudicing the Administrative Agent's or the Banks' rights to assert them in whole or in part in respect of any other Loan.

10.2 AMENDMENTS; CONSENTS. No amendment, modification, supplement, extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by Borrower therefrom, may in any event be effective unless in writing signed by the Requisite Banks (and, in the case of any amendment, modification or supplement of or to any Loan Document to which Borrower is a party, signed by Borrower and, in the case of any amendment, modification or supplement to Section 9, signed by the Administrative Agent), and then only in the specific instance and for the specific purpose given; and, without the approval in writing of all Banks affected thereby, no amendment, modification, supplement, termination, waiver or consent may be effective:

(a) To reduce the principal of, or the amount of principal, principal prepayments or the rate of interest payable on, any Loan, or the amount of the Commitment or the Pro Rata Share of any Bank or the amount of any facility fee payable to any Bank, or any other fee or amount payable to any Bank under the Loan Documents or to waive an Event of Default consisting of the failure of Borrower to pay when due principal, interest or any facility fee;

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(b) To postpone any date fixed for any payment of principal of, prepayment of principal of or any installment of interest on, any Loan or any installment of any facility fee, or to extend the term of the Commitments or increase the Commitments, or to release any Material Subsidiary from the Material Subsidiary Guaranty;

(c) To amend the provisions of the definition of "Requisite Banks", Sections 4 or 9 or this Section; or

(d) To amend any provision of this Agreement that expressly requires the consent or approval of all the Banks.

Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section shall apply equally to, and shall be binding upon, all the Banks and the Administrative Agent.

10.3 ATTORNEY COSTS, EXPENSES AND TAXES. Borrower shall pay within five Business Days after demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent in connection with the negotiation, preparation, syndication, execution and delivery of the Loan Documents (subject to any limitations set forth in a letter agreement between Borrower and the Arrangers entered into prior to the Closing Date) and any amendment thereto or waiver thereof. Borrower shall also pay on demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent and the Banks in connection with the reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto. The foregoing costs and expenses shall include filing fees, recording fees, title insurance fees, appraisal fees, search fees, and other out-of-pocket expenses and Attorney Costs incurred by the Administrative Agent or any Bank, and independent public accountants and other outside experts retained by the Administrative Agent or any Bank, whether or not such costs and expenses are incurred or suffered by the Administrative Agent or any Bank in connection with or during the course of any bankruptcy or insolvency proceedings of Borrower or any Subsidiary thereof. Such costs and expenses shall also include the administrative costs of the Administrative Agent reasonably attributable to the administration of this Agreement and the other Loan Documents. Borrower shall pay any and all Applicable Taxes and all costs, expenses, fees and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto, and shall reimburse, hold harmless and indemnify the Administrative Agent and the Banks from and against any and all loss, liability or legal or other expense with respect to or resulting from any delay in paying or failure to pay any such tax, cost, expense, fee or charge or that any of them may suffer or incur by reason of the failure of Borrower to perform any of its Obligations.

10.4 NATURE OF BANKS' OBLIGATIONS. The obligations of the Banks hereunder are several and not joint or joint and several. Nothing contained in this Agreement or any other Loan Document and no action taken by the Administrative Agent or the Banks or any of them pursuant hereto or thereto may, or may be deemed to, make the Banks a partnership, an association, a joint venture or other entity, either among themselves or with Borrower or any Affiliate of Borrower. Each Bank's obligation to make any Loan pursuant hereto is several and

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not joint or joint and several, and in the case of the initial Loan only is conditioned upon the performance by all other Banks of their obligations to make initial Loans. A default by any Bank will not increase the Pro Rata Share attributable to any other Bank. Any Bank not in default may, if it desires,

assume in such proportion as the nondefaulting Banks agree the obligations of any Bank in default, but is not obligated to do so.

10.5 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of Borrower or any Material Subsidiary will survive the making of the Loans hereunder and the execution and delivery of any Notes, and have been or will be relied upon by the Administrative Agent and each Bank, notwithstanding any investigation made by the Administrative Agent or any Bank or on their behalf.

10.6 NOTICES. Except as otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for therein shall be given by Requisite Notice and shall be effective as follows:

Mode of Delivery -----	Effective on earlier of actual receipt and: -----
Courier	On scheduled delivery date
Facsimile	When transmission complete
Mail	Fourth Business Day after deposit in U.S. mail
Personal delivery	When received
Telephone	When answered

provided, however, that notice to the Administrative Agent pursuant to Section 2 or 9 shall not be effective until actually received by the Administrative Agent. The Administrative Agent and any Bank shall be entitled to rely and act on any notice purportedly given by or on behalf of Borrower even if such notice (a) was not made in a manner specified herein, (b) was incomplete, (c) was not preceded or followed by any other notice specified herein, or (d) the terms of such notice as understood by the recipient varied from any subsequent related notice provided for herein. Borrower shall indemnify the Administrative Agent and any Bank from any loss, cost, expense or liability as a result of relying on any notice permitted herein.

10.7 EXECUTION OF LOAN DOCUMENTS. Unless the Administrative Agent otherwise specifies with respect to any Loan Document, (a) this Agreement and any other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, when taken together will be deemed to be but one and the same instrument and (b) execution of any such counterpart may be evidenced by a telecopier transmission of the signature of such party. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

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10.8 BINDING EFFECT; ASSIGNMENT.

(a) This Agreement and the other Loan Documents to which Borrower is a party will be binding upon and inure to the benefit of Borrower, the Administrative Agent, each of the Banks, and their respective successors and assigns, except that, Borrower may not assign its rights hereunder or thereunder

or any interest herein or therein without the prior written consent of all the Banks. Each Bank represents that it is not acquiring its Loans with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (subject to any requirement that disposition of such Loans must be within the control of such Bank). Any Bank may at any time pledge its Note or any other instrument evidencing its rights as a Bank under this Agreement to a Federal Reserve Bank, but no such pledge shall release that Bank from its obligations hereunder or grant to such Federal Reserve Bank the rights of a Bank hereunder absent foreclosure of such pledge.

(b) From time to time following the Closing Date, each Bank may assign to one or more Eligible Assignees all or any portion of its Pro Rata Share; provided that (i) such assignment shall be of a constant, and not a varying, percentage of all of the assigning Bank's rights and obligations under this Agreement (other than any right to make Loans owing to it), (ii), if not to a Bank or an Affiliate of the assigning Bank, shall be consented to by Borrower at all times other than during the existence of an Event of Default and the Administrative Agent (which approval of Borrower shall not be unreasonably withheld or delayed), (iii) a copy of a Notice of Assignment and Acceptance shall be delivered to the Administrative Agent, (iv) except in the case of an assignment to an Affiliate of the assigning Bank, to another Bank or of the entire remaining Commitment of the assigning Bank, the assignment shall not assign a Pro Rata Share equivalent to less than the Minimum Amount therefor, and (v) the effective date of any such assignment shall be as specified in the Notice of Assignment and Acceptance, but not earlier than the date which is five Business Days after the date the Administrative Agent has received the Notice of Assignment and Acceptance. Upon acceptance by the Administrative Agent of such Notice Assignment and Acceptance, the Eligible Assignee named therein shall be a Bank for all purposes of this Agreement, with the Pro Rata Share therein set forth and, to the extent of such Pro Rata Share, the assigning Bank shall be released from its further obligations under this Agreement. Borrower agrees that it shall execute and deliver upon request (against delivery by the assigning Bank to Borrower of any Note) to such assignee Bank, one or more Notes evidencing that assignee Bank's Pro Rata Share, and to the assigning Bank if requested, one or more Notes evidencing the remaining balance Pro Rata Share retained by the assigning Bank.

(c) By executing and delivering a Notice of Assignment and Acceptance, the Eligible Assignee thereunder acknowledges and agrees that: (i) other than the representation and warranty that it is the legal and beneficial owner of the Pro Rata Share being assigned thereby free and clear of any adverse claim, the assigning Bank has made 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 or sufficiency of this Agreement or any other Loan Document; (ii) the assigning Bank has made no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations; (iii) it has received a copy of this Agreement, together with copies of the most recent financial statements

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delivered pursuant to Section 6.1 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; (iv) it will, independently and without reliance upon the Administrative Agent or any Bank 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; (v) it appoints and authorizes the Administrative Agent to take such action and to exercise such powers under this Agreement as are delegated to the Administrative Agent by this Agreement; and (vi) it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) After receipt of a completed Notice of Assignment and Acceptance, and receipt of an assignment fee of \$3,500 from such Eligible Assignee, the Administrative Agent shall, promptly following the effective date thereof, provide to Borrower and the Banks a revised Schedule 10.6 giving effect thereto.

(e) Each Bank may from time to time grant participations to one or more banks or other financial institutions (including another Bank) in a portion of its Pro Rata Share; provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other financial institutions shall not be a Bank hereunder for any purpose except, if the participation agreement so provides, for the purposes of Section 3 (but only to the extent that the cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Bank absent the participation) and Section 10.9 (subject to Section 10.10), (iv) Borrower, the Administrative Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) the participation shall not restrict an increase in the Commitment or in the granting Bank's Pro Rata Share, so long as the amount of the participation interest is not affected thereby and (vi) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents other than those which (A) extend the Tranche A Maturity Date or Tranche B Maturity Date, as applicable, as to such participant or any other date upon which any payment of money is due to such participant, (B) reduce the rate of interest owing to such participant, any fee or any other monetary amount owing to such participant, (C) reduce the amount of any installment of principal owing to such participant or (D) release any guarantor.

10.9 RIGHT OF SETOFF. If an Event of Default has occurred and is continuing, the Administrative Agent or any Bank may exercise its rights under Division 9 of the Uniform Commercial Code and other applicable Laws and, to the extent permitted by applicable Laws, apply any funds in any deposit account maintained with it by Borrower and/or any property of Borrower in its possession against the Obligations.

10.10 SHARING OF SETOFFS. Each Bank severally agrees that if it, through the exercise of any right of setoff, banker's lien or counterclaim against Borrower, or otherwise, receives payment of the Obligations held by it that is ratably more than any other Bank, through any means, receives in payment of the Obligations held by that Bank, then, subject to applicable Laws: (a) the Bank exercising the right of setoff, banker's lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased,

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from the other Bank a participation in the Obligations held by the other Bank and shall pay to the other Bank a purchase price in an amount so that the share of the Obligations held by each Bank after the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment shall be in the same proportion that existed prior to the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all of the Banks share any payment obtained in respect of the Obligations ratably in accordance with each Bank's share of the Obligations immediately prior to, and without taking into account, the payment; provided that, if all or any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker's lien, counterclaim or otherwise is thereafter recovered from the purchasing Bank by Borrower or any Person claiming through or succeeding to the rights of Borrower, the purchase of a participation shall be rescinded and the purchase price thereof shall be

restored to the extent of the recovery, but without interest. Each Bank that purchases a participation in the Obligations pursuant to this Section shall from and after the purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Bank were the original owner of the Obligations purchased. Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in an Obligation so purchased may exercise any and all rights of setoff, banker's lien or counterclaim with respect to the participation as fully as if the Bank were the original owner of the Obligation purchased.

10.11 INDEMNITY BY BORROWER. Borrower agrees to indemnify, save and hold harmless the Administrative Agent and each Bank and their respective Affiliates, directors, officers, agents, attorneys and employees (collectively the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action (except a claim, demand, action, or cause of action for Bank Taxes) if the claim, demand, action or cause of action arises out of or relates to any act or omission (or alleged act or omission) of Borrower, its Affiliates or any of their officers, directors or stockholders relating to the Commitment, the use or contemplated use of proceeds of any Loan, or the relationship of Borrower and the Banks under this Agreement; (b) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in subsection (a) above; and (c) any and all liabilities, losses, costs or expenses (including Attorney Costs) that any Indemnatee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action (all of the foregoing collectively the "Indemnified Liabilities"); provided that no Indemnatee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnatee.

10.12 NONLIABILITY OF THE BANKS. Borrower acknowledges and agrees that:

(a) Any inspections of any property of Borrower made by or through the Administrative Agent or the Banks are for purposes of administration of the Loan only and Borrower is not entitled to rely upon the same (whether or not such inspections are at the expense of Borrower);

(b) By accepting or approving anything required to be observed, performed, fulfilled or given to the Administrative Agent or the Banks pursuant to the Loan Documents, neither the

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Administrative Agent nor the Banks shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by the Administrative Agent or the Banks;

(c) The relationship between Borrower and the Administrative Agent and the Banks is, and shall at all times remain, solely that of Borrower and lenders; neither the Administrative Agent nor the Banks shall under any circumstance be construed to be partners or joint venturers of Borrower or their Affiliates; neither the Administrative Agent nor the Banks shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or their Affiliates, or to owe any fiduciary duty to Borrower or their Affiliates; neither the Administrative Agent nor the Banks undertake or assume any responsibility or duty to Borrower or their Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or their Affiliates of any matter in connection with their property or the operations of Borrower or their Affiliates; Borrower and their Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply

of information undertaken or assumed by the Administrative Agent or the Banks in connection with such matters is solely for the protection of the Administrative Agent and the Banks and neither Borrower nor any other Person is entitled to rely thereon; and

(d) The Administrative Agent and the Banks shall not be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to property caused by the actions, inaction or negligence of Borrower and/or its Affiliates and Borrower hereby indemnifies and holds the Administrative Agent and the Banks harmless from any such loss, damage, liability or claim.

10.13 NO THIRD PARTIES BENEFITED. This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of Borrower, the Administrative Agent and the Banks in connection with the Loans, and is made for the sole benefit of Borrower, the Administrative Agent and the Banks, and the Administrative Agent's and the Banks' successors and assigns. Except as provided in Sections 10.8 and 10.11, no other Person shall have any rights of any nature hereunder or by reason hereof.

10.14 CONFIDENTIALITY. Each Bank agrees to hold any confidential information that it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure: (a) to a Bank's Affiliates; (b) to other Banks and their Affiliates; (c) to legal counsel and accountants for Borrower or any Bank; (d) to other professional advisors to Borrower or any Bank, provided that the recipient has accepted such information subject to a confidentiality agreement substantially similar to this Section; (e) to regulatory officials having jurisdiction over that Bank; (f) as required by Laws or legal process or in connection with any legal proceeding to which that Bank and Borrower are adverse parties; and (g) to another financial institution in connection with a disposition or proposed disposition to that financial institution of all or part of that Bank's interests hereunder or a participation interest in its Loans, provided that the recipient has agreed to treat such information confidentially on a basis similar to the foregoing. For purposes of the foregoing, "confidential information" shall mean any information respecting Borrower or its Subsidiaries reasonably considered by Borrower to be confidential, other than (i) information previously filed with any Governmental Authority and available to the public, (ii) information

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previously published in any public medium from a source other than, directly or indirectly, that Bank, and (iii) information previously disclosed by Borrower to any Person not associated with Borrower without a confidentiality agreement or obligation substantially similar to this Section. Nothing in this Section shall be construed to create or give rise to any fiduciary duty on the part of the Administrative Agent or the Banks to Borrower.

10.15 FURTHER ASSURANCES. Borrower and its Subsidiaries shall, at their expense and without expense to the Banks or the Administrative Agent, do, execute and deliver such further acts and documents as any Bank or the Administrative Agent from time to time reasonably requires for the assuring and confirming unto the Banks or the Administrative Agent of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

10.16 INTEGRATION. This Agreement, together with the other Loan Documents and any letter agreements referred to herein, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor

of the Administrative Agent or the Banks in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.17 FAILURE TO CHARGE NOT SUBSEQUENT WAIVER. Any decision by the Administrative Agent or any Bank not to require payment of any interest (including Default Interest), fee, cost or other amount payable under any Loan Document, or to calculate any amount payable by a particular method, on any occasion shall in no way limit or be deemed a waiver of the Administrative Agent's or such Bank's right to require full payment of any interest (including Default Interest), fee, cost or other amount payable under any Loan Document, or to calculate an amount payable by another method that is not inconsistent with this Agreement, on any other or subsequent occasion.

10.18 GOVERNING LAW. Except to the extent otherwise provided therein, each Loan Document shall be governed by, and construed and enforced in accordance with, the local Laws of California.

10.19 SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

10.20 HEADINGS. Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

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10.21 TIME OF THE ESSENCE. Time is of the essence of the Loan Documents.

10.22 FOREIGN BANKS AND PARTICIPANTS. Each Bank, and each holder of a participation interest herein, that is a "foreign corporation, partnership or trust" within the meaning of the Code shall deliver to the Administrative Agent, within 20 days after the Closing Date (or after accepting an assignment or receiving a participation interest herein) two duly signed completed copies of either Form 1001 (relating to such Person and entitling it to a complete exemption from withholding on all payments to be made to such Person by Borrower pursuant to this Agreement) or Form 4224 (relating to all payments to be made to such Person by Borrower pursuant to this Agreement) of the United States Internal Revenue Service or such other evidence (including, if reasonably necessary, Form W-9) satisfactory to Borrower and the Administrative Agent that no withholding under the federal income tax laws is required with respect to such Person. Thereafter and from time to time, each such Person shall (a) promptly submit to the Administrative Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and the Administrative Agent of any available exemption from, United States withholding taxes in respect of all payments to be made to such Person by Borrower pursuant to this Agreement and (b) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Bank, and as may be reasonably necessary (including the re-designation of its Lending Office, if any) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes from amounts payable to such Person. If such Persons fail to deliver the above forms or other documentation, then the Administrative Agent may withhold from any

interest payment to such Person an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code, without reduction. If any Governmental Authority asserts that the Administrative Agent did not properly withhold any tax or other amount from payments made in respect of such Person, such Person shall indemnify the Administrative Agent therefor, including all penalties and interest and costs and expenses (including Attorney Costs) of the Administrative Agent. The obligation of the Banks under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Administrative Agent.

10.23 REMOVAL OF A BANK. Under any circumstances set forth in this Agreement providing that Borrower shall have the right to remove a Bank as a party to this Agreement, such Bank shall, upon notice from Borrower, execute and deliver a Notice of Assignment and Acceptance covering that Bank's Pro Rata Share of the Commitments in favor of an Eligible Assignee acceptable to the Administrative Agent as Borrower may designate, subject to (a) payment in full by such Eligible Assignee of all principal, interest and fees owing to such Bank through the date of assignment and (b) delivery by such Eligible Assignee of such appropriate assurances and indemnities (which may include letters of credit) as such Bank may reasonably require with respect to its participation interest in any Letters of Credit then outstanding or any Swing Line Loans then outstanding. Alternatively, Borrower may reduce the Commitments (and, for this purpose, the Minimum Amounts for Commitment reductions shall not apply) by an amount equal to that Bank's Pro Rata Share of the Commitments, pay and provide to such Bank the amounts, assurances and indemnities described in (a) and (b) above and release such Bank from its Pro Rata Share of the Commitments.

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10.24 WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTY HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.25 PURPORTED ORAL AMENDMENTS. BORROWER EXPRESSLY ACKNOWLEDGES THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 10.2. BORROWER AGREES THAT IT WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR WRITTEN STATEMENTS BY ANY REPRESENTATIVE OF THE ADMINISTRATIVE AGENT OR ANY BANK THAT DOES NOT COMPLY WITH SECTION 10.2 TO EFFECT AN AMENDMENT, MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

10.26 JUDGMENT. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder or any other Loan Documents in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of Borrower in respect of any such sum due from it to the Administrative Agent or any Bank hereunder or under the other Loan Documents shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by the Administrative Agent of any sum adjudged to be so due in the Judgment Currency, the Administrative Agent may in accordance with normal

banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Administrative Agent or any Bank in the Agreement Currency, Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Administrative Agent or the Bank to whom such obligation was owing against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Administrative Agent or any Bank in such currency, the Administrative Agent agrees to return the amount of any excess to Borrower (or to any other Person who may be entitled thereto under applicable law).

(Credit Agreement)

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

FLOWSERVE CORPORATION,
a New York corporation

By: /s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

(Credit Agreement)

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BANK OF AMERICA, N.A., as Administrative
Agent

By: /s/ Gina Meador

Gina Meador
Vice President

(Credit Agreement)

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BANK OF AMERICA, N.A., as
Issuing Bank and a Bank

By: /s/ Therese A. Fontaine

Therese A. Fontaine
Principal

(Credit Agreement)

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BANK ONE, TEXAS, NA,
as Syndication Agent and as a Bank

By: /s/ Gina A. Norris

Gina A. Norris

Title: Managing Director

(Credit Agreement)

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ABN AMRO BANK N.V.

as Documentation Agent and as a Bank

By: /s/ Diego Puiggari

Diego Puiggari
Group Vice President

By: /s/ C. David Allman

C. David Allman
Assistant Vice President

(Credit Agreement)

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NATIONAL CITY BANK, as a Bank

By: /s/ Jeffrey L. Hawthorne

Jeffrey L. Hawthorne
Senior Vice President

(Credit Agreement)

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THE INDUSTRIAL BANK OF JAPAN,
LIMITED, New York Branch, as a Bank

By: /s/ Michael N. Oakes

Michael N. Oakes
Senior Vice President, HOUSTON OFFICE

(Credit Agreement)

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THE BANK OF TOKYO-MITSUBISHI, LTD., as a Bank

By: /s/ DOUGLAS M. BARNELL

Douglas M. Barnell
Vice President

By: /s/ JOHN M. MEARNES

John M. Mearns
Vice President

(Credit Agreement)

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BANCA COMMERCIALE ITALIANA, LOS
ANGELES FOREIGN BRANCH, as a Bank

By: /s/ C. DOUGHERTY

Title: C. Dougherty, VP

By: /s/ T. GALLONETTO

Title: T. Gallonetto, AVP

(Credit Agreement)

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HSBC BANK USA,
as a Bank

By: /s/ ROBERT CORDER

Robert Corder, #9428
Title: Relationship Manager

(Credit Agreement)

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BANK HAPOLIM B.M., as a Bank

By: /s/ [ILLEGIBLE]

Title: Senior Vice President

By: /s/ SHAUN BRIEDBART

Title: Vice President

(Credit Agreement)

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BANQUE NATIONALE DE PARIS, HOUSTON
AGENCY, as a Bank

By: /s/ HENRY F. SETINA

Henry F. Setina
Title: Vice President

(Credit Agreement)

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DG BANK DEUTSCHE
GENOSSENSCHAFTSBANK AG, as a Bank

By: /s/ CRAIG ANDERSON

Craig Anderson
Title: Assistant Vice President

By: /s/ RICHARD W. WILBERT

Richard W. Wilbert
Title: Vice President

(Credit Agreement)

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EXHIBIT A

REQUEST FOR EXTENSION OF CREDIT

Date: _____, _____

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V. , as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

The undersigned hereby requests (select one):

- ☐ A Borrowing of Loans
- ☐ Conversion or Continuation of Loans
- 1. On _____, _____
- 2. In the amount of [\$]_____.
- 3. In _____.
[currency]
- 4. Comprised of _____.
[type of Loan requested]
- 5. If applicable: with an Interest Period of _____ months/days.

The foregoing request complies with the requirements of Section 2.2 of the Credit Agreement. The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the above date, before and after giving effect and to the application of the proceeds therefrom:

(a) the representations and warranties of Borrower contained in Section 5 of the Credit Agreement are true and correct in all material respects as though made on and as of the above date (except (i) to the extent that such representations and warranties expressly relate solely to an earlier date and then shall be correct as of such date and (ii) that the representation and warranty set forth in Section 5.3 of the Credit Agreement as to lack of material adverse change is made since the date of the then most recent financial statement delivered pursuant to

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Section 6.1(b) of the Credit Agreement), before and after giving effect to this Borrowing and to the application of the proceeds therefrom, as though made on and as of this date; and

(b) no Default or Event of Default has occurred and is continuing, or would result from such proposed Extension of Credit.

FLOWERVE CORPORATION,
a New York corporation

By: _____
Name: _____

Title: _____

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EXHIBIT B
COMPLIANCE CERTIFICATE

Financial Statement Date: _____, _____

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Administrative Agent on the behalf of Borrower, and that:

1. Attached as Schedule 1 hereto are either (a) the financial statements required under Section 6.1(a) of the Credit Agreement as of the above date, which financial statements fairly present the financial condition of Borrower and its Subsidiaries as at the dates indicated and the results of their operations for the periods indicated, subject to changes resulting from audit and normal year-end adjustment; or (b) the financial statements required under Section 6.1(b) of the Credit Agreement as of the above date, certified by Ernst & Young LLP or other nationally recognized independent public accountants acceptable to the Requisite Banks, which certification is unqualified (as to going concern, scope of audit and disagreements over the accounting or other treatment of offsets) and states that such consolidated financial statements present fairly the financial position of Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise stated therein) and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards.

2. The undersigned has reviewed the terms of this Credit Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the transactions and condition of Borrower and its Subsidiaries during the accounting period covered by such attached financial statements.

[Such review has not disclosed the existence during or at the end of such accounting period, and the undersigned does not have knowledge of the existence as at the date hereof, of any condition or event that constitutes an Event of Default or Default.]

[The undersigned is aware of the following Event of Default or Default which exists or existed during such accounting period. Attached hereto is a description of the nature and period

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of existence thereof and what action Borrower has taken, is taking and proposes to take the respect thereto.]

3. The following financial covenant analyses and information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of

_____, _____.

FLOWSERVE CORPORATION,
a New York corporation

By: _____

Name: _____

Title: _____

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SCHEDULE 1
Financial Statements - Attached hereto

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Date: _____,
For the Fiscal Quarter/Year
ended _____,

SCHEDULE 2
to Compliance Certificate
(\$ in 000's)

I. SECTION 7.1 - DEBT.

A.	Aggregate outstanding purchase money Debt:	\$ _____
B.	15% of Consolidated Net Worth:	\$ _____
	Maximum Permitted: Line I.A. not to exceed Line I.B	
C.	Aggregate outstanding Subsidiary Debt:	\$ _____

Maximum Permitted: Line I.C. not to exceed Line I.B

II. SECTION 7.2(o) - LIENS.

A. Other Liens: \$ _____
Maximum Permitted: securing obligations not exceeding \$10,000,000

III. SECTION 7.4 - INVESTMENTS AND ACQUISITIONS.

A. Additional Joint Ventures: \$ _____
Maximum Permitted: Line III.A. not to exceed Line I.B

B. Additional investments: \$ _____
Maximum Permitted: \$10,000,000

IV. SECTION 7.5 - CONTINGENT OBLIGATIONS.

A. Guaranties of outstanding Subsidiary Debt: \$ _____
Maximum Permitted: Line IV.A. not to exceed Line I.B

B. Section 7.5(j) contingent obligations \$ _____
Maximum Permitted: \$30,000,000

C. Section 7.5(k) contingent obligations \$ _____
Maximum Permitted: \$50,000,000

D. Aggregate amount of outstanding Subsidiary Debt: \$ _____
Maximum Permitted: 15% of Consolidated Net Worth

V. SECTION 7.6(g) - FUNDAMENTAL CHANGES.

A. 15% Test:

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(Credit Agreement)

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1. Book value of Dispositions during period of four consecutive Fiscal Quarters ending 12 months ago ("Prior Subject Period"): \$ _____

2. 15% of Consolidated Total Assets as of last day of Prior Subject Period (adding back all dispositions to such date): \$ _____

B. 30% Test:

1. Book value of Dispositions since Closing Date to date hereof: \$ _____

2. 30% of Consolidated Total Assets as of date hereof (adding back all dispositions): \$ _____
Maximum Permitted: Line V.B.1 not to exceed Line V.B.2)

C. Reinvestment/Prepayment Test:

1. Net Proceeds from Dispositions noted in Lines V.A.1: \$ _____

2. Excess Net Proceeds (Net Proceeds in excess of 15% of Consolidated Total Assets (Line C.1 less Line A.2, greater than 0): \$ _____

3. Excess Net Proceeds (Line C.2) reinvested in the business within four consecutive Fiscal Quarters ending on above date ("Subject Period") : \$ _____
4. Excess Net Proceeds applied to prepay outstanding Debt other than Subordinated Debt during Subject Period: \$ _____
- Minimum Required: Lines C.3 + C.4 to equal or exceed Line C.2

VI. SECTION 7.7(a) - LEVERAGE RATIO.

- A. Consolidated Adjusted EBITDA for four consecutive Fiscal Quarters ending on above date ("Subject Period"):
1. Consolidated net income for Subject Period: \$ _____
2. Interest expense for Subject Period: \$ _____
3. Depreciation expense for Subject Period: \$ _____
4. Amortization expense of goodwill, other intangibles and financing costs: \$ _____
5. Extraordinary losses: \$ _____
6. Income tax expense: \$ _____

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(Credit Agreement)

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7. Extraordinary gains on asset sales: \$ _____
8. Noncash extraordinary income: \$ _____
9. EBITDA of acquired Persons (if at least \$5,000,000 on an annualized basis for each such Person): \$ _____
10. Consolidated Adjusted EBITDA (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9): \$ _____
11. One time charge, if any, per definition of "Leverage Ratio": \$ _____
12. Consolidated Adjusted EBITDA plus one time charge: (Lines A.10 + A.11): \$ _____

B. Consolidated Funded Debt:

1. Indebtedness for borrowed money: \$ _____
2. Bonds (other than performance bonds) debentures, notes or similar instruments: \$ _____
3. Deferred purchase price of property or services (other than trade payables not more than 60 days past due or being contested and other payments made in respect of employment contracts per definition of "Debt"): \$ _____
4. Capital Lease Obligations: \$ _____

5.	Drawn but unreimbursed letters of credit and surety bonds:	\$ _____
6.	Liability assumed or net cash proceeds with respect to a Receivables Program:	\$ _____
7.	Consolidated Funded Debt (Lines 1 + 2 + 3 + 4 + 5 + 6):	\$ _____
8.	Financial Letters of Credit in the aggregate (in excess of \$25,000,000):	\$ _____
9.	Consolidated Adjusted Funded Debt including Financial Letters of Credit (Line B.7 + B.8):	\$ _____

C. Leverage Ratio (Line B.9 divided by Line A.12): _____ to 1

Maximum permitted (during period ending March 31, 2001): 4.00 to 1

Maximum permitted (thereafter): 3.50 to 1

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(Credit Agreement)

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VII. SECTION 7.7(b) - INTEREST COVERAGE RATIO

A. Consolidated Adjusted EBITDA for four consecutive Fiscal Quarters ending on above date ("Subject Period") (Line VI.A.10): \$ _____

B. Consolidated Interest Charges:

1.	Consolidated interest, premium payments, fees, charges and related expenses in for borrowed money (including capitalized interest) and deferred purchase price of assets:	\$ _____
2.	Portion of consolidated rent payable under capital leases that is treated as interest:	\$ _____
3.	Consolidated Interest Charges (Lines 1 + 2):	\$ _____

C. Interest Coverage Ratio (Line A divided by Line B.3): _____ to 1

Minimum required ratio (during period ending March 31, 2001): 3.5 to 1.0

Minimum required ratio (thereafter): 4.0 to 1.0

VIII. SECTION 7.7(c) - MAXIMUM SENIOR LEVERAGE RATIO.

A. Consolidated Adjusted EBITDA plus one time charge (Line VI.A.12): \$ _____

B.

1.	Consolidated Adjusted Funded Debt including Financial Letters of Credit (Line VI.B.9):	\$ _____
2.	Outstanding principal amount of Subordinated Debt:	\$ _____

3. Total: (Lines B.1 - B.2):

\$ _____

C. Maximum Senior Leverage Ratio (Line B.3 divided by Line A):

_____ to 1

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(Credit Agreement)

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Maximum permitted (during period ending March 31,
2001):

2.50 to 1.0

Maximum permitted (thereafter):

2.0 to 1.0

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(Credit Agreement)

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EXHIBIT C-1

FORM OF TRANCHE A LOAN NOTE

\$ _____

[Date]

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), on the Tranche A Maturity Date (as defined in the Credit Agreement referred to below) the principal amount of \$_____, or such lesser principal amount of Tranche A Loans (as defined in the Credit Agreement referred to below) payable by Borrower to the Bank on such Tranche A Maturity Date under that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

Borrower promises to pay interest on the unpaid principal amount of each Tranche A Loan from the date of such Tranche A Loan until such principal amount is paid in full, at such interest rates, and payable at such times as are specified in the Credit Agreement.

All payments of principal and interest with respect to any Tranche A Loan shall be made to the Administrative Agent for the account of the Bank in the currency of such Tranche A Loan in immediately available funds at Administrative Agent's Payment office.

If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Tranche A Loan Note is one of the "Tranche A Loan Notes" referred to in the Credit Agreement. Reference is hereby made to the Credit Agreement for rights and obligations of payment and prepayment, events of default and the right of the Bank to accelerate the maturity hereof upon the occurrence of such events.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Tranche A Loan Note.

Borrower agrees to pay all collection expenses, court costs and Attorney Costs (whether or not litigation is commenced) which may be incurred by the Bank in connection with the collection or enforcement of this Tranche A Loan Note.

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(Credit Agreement)

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THIS TRANCHE A LOAN NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

FLOWSERVE CORPORATION,
a New York corporation

By: _____

Name: _____

Title: _____

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(Credit Agreement)

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EXHIBIT C-2

FORM OF TRANCHE B LOAN NOTE

\$ _____

[Date]

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), on the Tranche B Maturity Date (as defined in the Credit Agreement referred to below) the principal amount of \$_____, or such lesser principal amount of Tranche B Loans (as defined in the Credit Agreement referred to below) payable by Borrower to the Bank on such Tranche B Maturity Date under that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

Borrower promises to pay interest on the unpaid principal amount of each Tranche B Loan from the date of such Tranche B Loan until such principal amount is paid in full, at such interest rates, and payable at such times as are specified in the Credit Agreement.

All payments of principal and interest with respect to any Tranche B Loan shall be made to the Administrative Agent for the account of the

Bank in the currency of such Tranche B Loan in immediately available funds at Administrative Agent's Payment office.

If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Tranche B Loan Note is one of the "Tranche B Loan Notes" referred to in the Credit Agreement. Reference is hereby made to the Credit Agreement for rights and obligations of payment and prepayment, events of default and the right of the Bank to accelerate the maturity hereof upon the occurrence of such events.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Tranche B Loan Note.

Borrower agrees to pay all collection expenses, court costs and Attorney Costs (whether or not litigation is commenced) which may be incurred by the Bank in connection with the collection or enforcement of this Tranche B Loan Note.

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(Credit Agreement)

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THIS TRANCHE B LOAN NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

FLOWSERVE CORPORATION,
a New York corporation

By: _____

Name: _____

Title: _____

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(Credit Agreement)

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EXHIBIT C-3

FORM OF SWING LINE NOTE

\$ _____

[Date]

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), on the Tranche A Maturity Date (as defined in the Credit Agreement referred to below) the principal amount of \$_____, or such lesser principal amount of Swing Line Loans (as defined in the Credit Agreement referred to below) payable by Borrower to the Bank on such Tranche A Maturity Date under that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to

time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

Borrower promises to pay interest on the unpaid principal amount of each Swing Line Loan from the date of such Swing Line Loan until such principal amount is paid in full, at such interest rates, and payable at such times as are specified in the Credit Agreement.

All payments of principal and interest with respect to any Swing Line Loan shall be made to the Administrative Agent for the account of the Bank in the currency of such Swing Line Loan in immediately available funds at Administrative Agent's Payment office.

If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Swing Line Note is the "Swing Line Note" referred to in the Credit Agreement. Reference is hereby made to the Credit Agreement for rights and obligations of payment and prepayment, events of default and the right of the Bank to accelerate the maturity hereof upon the occurrence of such events.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Swing Line Note.

Borrower agrees to pay all collection expenses, court costs and Attorney Costs (whether or not litigation is commenced) which may be incurred by the Bank in connection with the collection or enforcement of this Swing Line Note.

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(Credit Agreement)

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THIS SWING LINE NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

FLOWSERVE CORPORATION,

By: _____

Name: _____

Title: _____

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(Credit Agreement)

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EXHIBIT D

FORM OF NOTICE OF ASSIGNMENT AND ACCEPTANCE

-----, ----

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

1. We hereby give you notice of, and request your consent to, the assignment by _____ (the "Assignor") to _____ (the "Assignee") of _____% of the right, title and interest of the Assignor in and to the Loan Documents, including without limitation the right, title and interest of the Assignor in and to the Commitment of the Assignor, all outstanding Loans made by the Assignor and outstanding Letter of Credit Usage. Before giving effect to such assignment:

(a) the aggregate amount of the Assignor's Commitment is \$_____;

(b) the aggregate principal amount of its outstanding Loans is \$_____; and

(c) the aggregate face amount of Letter of Credit Usage is \$_____.

The Assignee hereby represents and warrants that it has complied with the requirements of Section 10.8 of the Credit Agreement in connection with this assignment.

3. The Assignee agrees that, upon receiving your consent to such assignment and from and after _____, _____ the Assignee will be bound by the terms of the Loan Documents, with respect to the interest in the Loan Documents assigned to it as specified above, as fully and to the same extent as if the Assignee were the Bank originally holding such interest in the Loan Documents.

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(Credit Agreement)

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4. The following administrative details apply to the Assignee:

(a) Offshore Lending Office:

Assignee name: _____

Address: _____

Attention: _____

Telephone: () _____

Telecopier: () _____

(b) Domestic Lending Office:
Assignee name: _____
Address: _____

Attention: _____
Telephone: () _____
Telecopier: () _____

(c) Notice Address:
Assignee name: _____
Address: _____

Attention: _____
Telephone: () _____
Telecopier: () _____

(d) Payment Instructions: Account No.:
Account No. _____
Attention: _____
Reference: _____

D-2 (Credit Agreement)

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Notice of Assignment and Acceptance to be executed by their respective duly authorized officials, officers or agents as of the date first above mentioned.

Very truly yours,

[NAME OF ASSIGNOR]

By: _____

Name: _____

Title: _____

[NAME OF ASSIGNEE]

By:

Name: _____

Title: _____

We hereby consent to the foregoing assignment.

FLOWSERVE CORPORATION

By: _____

Name: _____

Title: _____

BANK OF AMERICA, N.A.,
AS ADMINISTRATIVE AGENT

By: _____

Name: _____

Title: _____

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(Credit Agreement)

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EXHIBIT E

MATERIAL SUBSIDIARY GUARANTY

This Material Subsidiary Guaranty is entered into as of [] by [], a [] corporation (collectively, "Subsidiary Guarantors"), jointly and severally, in favor of and for the benefit of Bank of America, N.A., as Administrative Agent for and representative of (in such capacity herein called "Administrative Agent") itself, the Banks and the Issuing Bank (as each such term is defined in the Credit Agreement referenced below).

RECITALS

A. Flowserve Corporation, a New York corporation (the "Borrower") is entering into that certain Credit Agreement dated as of October 7, 1999 entered into by and among Borrower, the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

B. A portion of the proceeds of the Loans may be loaned to the

Subsidiary Guarantors and Letters of Credit may be issued for the benefit of the Subsidiary Guarantors and thus the Guaranteed Obligations (as hereinafter defined) are being incurred for and will inure to the benefit of the Subsidiary Guarantors (which benefits are hereby acknowledged).

C. It is a condition precedent to the making of the Loans and issuance of Letters of Credit that Borrower's obligations under the Credit Agreement be guaranteed by the Subsidiary Guarantors.

D. Subsidiary Guarantors are willing irrevocably and unconditionally to guaranty such obligations of Borrower.

NOW, THEREFORE, based upon the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce Banks, the Issuing Bank and Administrative Agent to make the Loans and issue Letters of Credit, the Subsidiary Guarantors hereby agree as follows:

SECTION 1. DEFINITIONS

1.1 Certain Defined Terms. As used in this Subsidiary Guaranty, the following terms shall have the following meanings unless the context otherwise requires:

"Guaranteed Obligations" has the meaning assigned to that term in Section 2.1.

"Payment in full", "paid in full" or any similar term means payment in full of the Guaranteed Obligations including, without limitation, all principal, interest, costs, fees and expenses (including, without limitation, legal fees and expenses) of Banks and Administrative Agent as required under the Loan Documents.

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"Subsidiary Guaranty" means this Subsidiary Guaranty.

1.2 Interpretation.

(a) References to "Sections" shall be to Sections of this Subsidiary Guaranty unless otherwise specifically provided. All accounting terms not otherwise defined herein shall have the meanings assigned to them under generally accepted accounting principles.

(b) In the event of any conflict or inconsistency between the terms, conditions and provisions of this Subsidiary Guaranty and the terms, conditions and provisions of the Credit Agreement, the terms, conditions and provisions of this Subsidiary Guaranty shall prevail.

SECTION 2. THE GUARANTY

2.1 Guaranty of the Guaranteed Obligations. Subsidiary Guarantors hereby irrevocably and unconditionally guaranty, as primary obligor and not merely as surety, the due and punctual payment in full of all Guaranteed Obligations when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a)). The term "Guaranteed Obligations" is used herein in its most comprehensive sense and includes:

(a) any and all Obligations of Borrower now or hereafter made, incurred or created, whether absolute or contingent, liquidated or unliquidated, whether due or not due, and however arising under or in connection with the Credit

Agreement and the other Loan Documents, including those arising under successive borrowing transactions under the Credit Agreement which shall either continue the Obligations of Borrower or from time to time renew them after they have been satisfied; and

(b) those expenses set forth in Section 2.9 hereof.

2.2 Limitation on Amount Guaranteed; Contribution by Subsidiary Guarantors.

(a) Anything contained in this Subsidiary Guaranty to the contrary notwithstanding, if any Fraudulent Transfer Law (as hereinafter defined) is determined by a court of competent jurisdiction to be applicable to the obligations of the Subsidiary Guarantors under this Subsidiary Guaranty, such obligations of the Subsidiary Guarantors hereunder shall be limited to a maximum aggregate amount equal to the largest amount that would not render their obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of Title 11 of the United States Code or any applicable provisions of comparable state law (collectively, the "Fraudulent Transfer Laws"), in each case after giving effect to all other liabilities of the Subsidiary Guarantors, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws (specifically excluding, however, any liabilities of the Subsidiary Guarantors (x) in respect of intercompany indebtedness to Borrower or other affiliates of Borrower to the extent that such indebtedness would be discharged in an amount equal to the amount paid by the Subsidiary Guarantors hereunder and (y) under any guaranty of Subordinated Indebtedness which guaranty contains a limitation as to maximum amount similar to that set forth in this Section 2.2(a), pursuant to which the liability of the Subsidiary Guarantors hereunder is included in the

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liabilities taken into account in determining such maximum amount) and after giving effect as assets to the value (as determined under the applicable provisions of the Fraudulent Transfer Laws) of any rights to subrogation, reimbursement, indemnification or contribution of the Subsidiary Guarantors pursuant to applicable law or pursuant to the terms of any agreement (including without limitation any such right of contribution under a Related Guaranty (as hereinafter defined) as contemplated by Section 2.2(b)).

(b) Subsidiary Guarantors under this Subsidiary Guaranty, and each guarantor under other guaranties, if any, relating to the Credit Agreement (the "Related Guaranties") which contain a contribution provision similar to that set forth in this Section 2.2(b), together desire to allocate among themselves (collectively, the "Contributing Guarantors"), in a fair and equitable manner, their obligations arising under this Subsidiary Guaranty and the Related Guaranties. Accordingly, in the event any payment or distribution is made on any date by the Subsidiary Guarantors under this Subsidiary Guaranty or a guarantor under a Related Guaranty (a "Funding Guarantor") that exceeds its Fair Share (as defined below) as of such date, that Funding Guarantor shall be entitled to a contribution from each of the other Contributing Guarantors in the amount of such other Contributing Guarantor's Fair Share Shortfall (as defined below) as of such date, with the result that all such contributions will cause each Contributing Guarantor's Aggregate Payments (as defined below) to equal its Fair Share as of such date. "Fair Share" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the ratio of (x) the Adjusted Maximum Amount (as defined below) with respect to such Contributing Guarantor to (y) the aggregate of the Adjusted Maximum Amounts with respect to all Contributing Guarantors, multiplied by (ii) the aggregate amount paid or distributed on or before such date by all Funding Guarantors under this Subsidiary Guaranty and the Related Guaranties in respect of the obligations guaranteed. "Fair Share Shortfall" means, with respect to a Contributing Guarantor as of any date of determination, the excess, if any, of the Fair Share of such Contributing Guarantor over the Aggregate Payments of such Contributing

Guarantor. "Adjusted Maximum Amount" means, with respect to a Contributing Guarantor as of any date of determination, the maximum aggregate amount of the obligations of such Contributing Guarantor under this Subsidiary Guaranty and the Related Guaranties, determined as of such date in accordance with Section 2.2(a) or, if applicable, a similar provision contained in a Related Guaranty; provided that, solely for purposes of calculating the "Adjusted Maximum Amount" with respect to any Contributing Guarantor for purposes of this Section 2.2(b), any assets or liabilities of such Contributing Guarantor arising by virtue of any rights to subrogation, reimbursement or indemnification or any rights to or obligations of contribution hereunder or under any similar provision contained in a Related Guaranty shall not be considered as assets or liabilities of such Contributing Guarantor. "Aggregate Payments" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the aggregate amount of all payments and distributions made on or before such date by such Contributing Guarantor in respect of this Subsidiary Guaranty and the Related Guaranties (including, without limitation, in respect of this Section 2.2(b) or any similar provision contained in a Related Guaranty) minus (ii) the aggregate amount of all payments received on or before such date by such Contributing Guarantor from the other Contributing Guarantors as contributions under this Section 2.2(b) or any similar provision contained in a Related Guaranty. The amounts payable as contributions hereunder and under similar provisions in the Related Guaranties shall be determined as of the date on which the related payment or distribution is made by the applicable Funding Guarantor. The allocation among Contributing Guarantors of their obligations as set

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forth in this Section 2.2(b) or any similar provision contained in a Related Guaranty shall not be construed in any way to limit the liability of any Contributing Guarantor hereunder or under a Related Guaranty. Each Contributing Guarantor under a Related Guaranty is a third party beneficiary to the contribution agreement set forth in this Section 2.2(b).

2.3 Liability of Subsidiary Guarantors. Subsidiary Guarantors agree that their obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit. In furtherance of the foregoing and without limiting the generality thereof, the Subsidiary Guarantors agree as follows:

(a) This Subsidiary Guaranty is a guaranty of payment when due and not of collectibility.

(b) Administrative Agent may enforce this Subsidiary Guaranty upon the occurrence of an Event of Default under the Credit Agreement notwithstanding the existence of any dispute between Banks and Borrower with respect to the existence of such Event of Default.

(c) The obligations of the Subsidiary Guarantors hereunder are independent of the obligations of Borrower under the Loan Documents and the obligations of any other guarantor of the obligations of Borrower under the Loan Documents, and a separate action or actions may be brought and prosecuted against the Subsidiary Guarantors whether or not any action is brought against Borrower or any of such other guarantors and whether or not Borrower is joined in any such action or actions.

(d) Subsidiary Guarantors payment of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify or abridge the Subsidiary Guarantors' liability for any portion of the Guaranteed Obligations which has not been paid. Without limiting the generality of the foregoing, if Administrative Agent is awarded a judgment in any suit brought to enforce the

Subsidiary Guarantors covenant to pay a portion of the Guaranteed Obligations, such judgment shall not be deemed to release the Subsidiary Guarantors from their covenant to pay the portion of the Guaranteed Obligations that is not the subject of such suit.

(e) Administrative Agent or any Bank, upon such terms as it deems appropriate, without notice or demand and without affecting the validity or enforceability of this Subsidiary Guaranty or giving rise to any reduction, limitation, impairment, discharge or termination of the Subsidiary Guarantors' liability hereunder, from time to time may (i) renew, extend, accelerate, increase the rate of interest on, or otherwise change the time, place, manner or terms of payment of the Guaranteed Obligations, (ii) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Guaranteed Obligations or any agreement relating thereto and/or subordinate the payment of the same to the payment of any other obligations; (iii) request and accept other guaranties of the Guaranteed Obligations and take and hold security for the payment of this Subsidiary Guaranty or the Guaranteed Obligations; (iv) release, surrender, exchange, substitute, compromise, settle, rescind, waive, alter, subordinate or modify, with or without consideration, any security for payment of the Guaranteed

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Obligations, any other guaranties of the Guaranteed Obligations, or any other obligation of any Person with respect to the Guaranteed Obligations; (v) enforce and apply any security now or hereafter held by or for the benefit of Administrative Agent or any Bank in respect of this Subsidiary Guaranty or the Guaranteed Obligations and direct the order or manner of sale thereof, or exercise any other right or remedy that Administrative Agent or Banks, or any of them, may have against any such security, as Administrative Agent in its discretion may determine consistent with the Credit Agreement and any applicable security agreement, including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and even though such action operates to impair or extinguish any right of reimbursement or subrogation or other right or remedy of the Subsidiary Guarantors against Borrower or any security for the Guaranteed Obligations; and (vi) exercise any other rights available to it under the Loan Documents.

(f) This Subsidiary Guaranty and the obligations of the Subsidiary Guarantors hereunder shall be valid and enforceable and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason (other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit), including without limitation the occurrence of any of the following, whether or not the Subsidiary Guarantors shall have had notice or knowledge of any of them: (i) any failure or omission to assert or enforce or agreement or election not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy (whether arising under the Loan Documents, at law, in equity or otherwise) with respect to the Guaranteed Obligations or any agreement relating thereto, or with respect to any other guaranty of or security for the payment of the Guaranteed Obligations; (ii) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including without limitation provisions relating to events of default) of the Credit Agreement, any of the other Loan Documents or any agreement or instrument executed pursuant thereto, or of any other guaranty or security for the Guaranteed Obligations, in each case whether or not in accordance with the terms of the Credit Agreement or such Loan Document or any agreement relating to such other guaranty or security; (iii) the Guaranteed Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect; (iv) the application of payments received from any source (other than payments received

pursuant to the other Loan Documents or from the proceeds of any security for the Guaranteed Obligations, except to the extent such security also serves as collateral for indebtedness other than the Guaranteed Obligations) to the payment of indebtedness other than the Guaranteed Obligations, even though Administrative Agent or Banks, or any of them, might have elected to apply such payment to any part or all of the Guaranteed Obligations; (v) any Bank's or Administrative Agent's consent to the change, reorganization or termination of the corporate structure or existence of Borrower or any of its Subsidiaries and to any corresponding restructuring of the Guaranteed Obligations; (vi) any failure to perfect or continue perfection of a security interest in any collateral which secures any of the Guaranteed Obligations; (vii) any defenses, set-offs or counterclaims which Borrower may allege or assert against Administrative Agent or any Bank in respect of the Guaranteed Obligations, including but not limited to failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury; and (viii) any other act or thing or omission, or delay to do any other act or thing, which

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may or might in any manner or to any extent vary the risk of the Subsidiary Guarantors as an obligor in respect of the Guaranteed Obligations.

2.4 Waivers by Subsidiary Guarantors. Subsidiary Guarantors hereby waive, for the benefit of Banks and Administrative Agent:

(a) any right to require Administrative Agent or Banks, as a condition of payment or performance by the Subsidiary Guarantors, to (i) proceed against Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (ii) proceed against or exhaust any security held from Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (iii) proceed against or have resort to any balance of any deposit account or credit on the books of Administrative Agent or any Bank in favor of Borrower or any other Person, or (iv) pursue any other remedy in the power of Administrative Agent or any Bank whatsoever;

(b) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of Borrower including, without limitation, any defense based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of Borrower from any cause other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit;

(c) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(d) any defense based upon Administrative Agent's or any Bank's errors or omissions in the administration of the Guaranteed Obligations, except behavior which amounts to bad faith;

(e) (i) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms of this Subsidiary Guaranty and any legal or equitable discharge of the Subsidiary Guarantors' obligations hereunder, (ii) the benefit of any statute of limitations affecting the Subsidiary Guarantors' liability hereunder or the enforcement hereof, (iii) any rights to set-offs, recoupments and counterclaims, and (iv) promptness, diligence and any requirement that Administrative Agent or any Bank protect, secure, perfect or insure any security interest or lien or any property subject thereto;

(f) notices, demands, presentments, protests, notices of protest,

notices of dishonor and notices of any action or inaction, including acceptance of this Subsidiary Guaranty, notices of default under the Credit Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto, notices of any extension of credit to Borrower and notices of any of the matters referred to in Section 2.3 and any right to consent to any thereof; and

(g) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms of this Subsidiary Guaranty.

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2.5 Payment by Subsidiary Guarantors; Application of Payments.

Subsidiary Guarantors hereby agree, in furtherance of the foregoing and not in limitation of any other right which Administrative Agent or any other Person may have at law or in equity against the Subsidiary Guarantors by virtue hereof, upon the failure of Borrower to pay any of the Guaranteed Obligations when and as the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a)), the Subsidiary Guarantors will forthwith pay, or cause to be paid, in cash, to Administrative Agent for the ratable benefit of Banks, an amount equal to the sum of the unpaid principal amount of all Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such Guaranteed Obligations (including, without limitation, interest which, but for the filing of a petition in bankruptcy with respect to Borrower, would have accrued on such Guaranteed Obligations, whether or not a claim is allowed against Borrower for such interest in any such bankruptcy proceeding) and all other Guaranteed Obligations then owed to Administrative Agent and/or Banks as aforesaid. All such payments shall be applied promptly from time to time by Administrative Agent:

First, to the payment of the costs and expenses of any collection or other realization under this Subsidiary Guaranty, including reasonable compensation to Administrative Agent and its agents and counsel, and all expenses, liabilities and Loans made or incurred by Administrative Agent in connection therewith;

Second, to the payment of all other Guaranteed Obligations; and

Third, after payment in full of all Guaranteed Obligations, to the payment to the Subsidiary Guarantors, or their successors or assigns, or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such payments.

2.6 Subrogation. Until the Guaranteed Obligations shall have been indefeasibly paid in full and the Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement, the Subsidiary Guarantors shall withhold exercise of (a) any right of subrogation, (b) any right of contribution the Subsidiary Guarantors may have against any other guarantor of the Guaranteed Obligations, (c) any right to enforce any remedy which Administrative Agent or any Bank now has or may hereafter have against Borrower or (d) any benefit of, and any right to participate in, any security now or hereafter held by Administrative Agent or any Bank. Subsidiary Guarantors further agree that, to the extent the waiver of its rights of subrogation and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation the Subsidiary Guarantors may have against Borrower or against any collateral or security, and any rights of contribution the Subsidiary Guarantors may have against any other guarantor, shall be junior and subordinate to any rights Administrative Agent or Banks may have against Borrower, to all right, title and interest Administrative Agent or Banks may have in any such collateral or security, and to any right Administrative Agent

or Banks may have against such other guarantor. Administrative Agent, on behalf of Banks, may use, sell or dispose of any item of collateral or security as it sees fit without regard to any subrogation rights the Subsidiary Guarantors may have, and upon any such disposition or sale any rights of subrogation

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the Subsidiary Guarantors may have shall terminate. If any amount shall be paid to the Subsidiary Guarantors on account of such subrogation rights at any time when all Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for Administrative Agent on behalf of Banks and shall forthwith be paid over to Administrative Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms of the Credit Agreement or any applicable security agreement.

2.7 Subordination of Other Obligations. Any indebtedness of Borrower now or hereafter held by the Subsidiary Guarantors is hereby subordinated in right of payment to the Guaranteed Obligations, and any such indebtedness of Borrower to the Subsidiary Guarantors collected or received by the Subsidiary Guarantors after an Event of Default has occurred and is continuing shall be held in trust for Administrative Agent on behalf of Banks and shall forthwith be paid over to Administrative Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations but without affecting, impairing or limiting in any manner the liability of the Subsidiary Guarantors under any other provision of this Subsidiary Guaranty.

2.8 Real Property Security. Subsidiary Guarantors agree that, if all or a portion of the Guaranteed Obligations are at any time secured by a deed of trust or mortgage covering interests in real property, Administrative Agent or its designee, in its sole discretion, without notice or demand and without affecting the liability of the Subsidiary Guarantors under this Subsidiary Guaranty, may foreclose, pursuant to the terms of the Loan Documents or otherwise, on such deed of trust or mortgage and the interests in real property secured thereby by nonjudicial or other sale. The Subsidiary Guarantors understand that the exercise by Banks or Administrative Agent, or any of them, of certain rights and remedies contained in the Credit Agreement and such deed of trust or mortgage may affect or eliminate Subsidiary Guarantors' right of subrogation against Borrower and that the Subsidiary Guarantors may therefore incur a partially or totally nonreimbursable liability hereunder. Nevertheless, the Subsidiary Guarantors hereby authorize and empower Administrative Agent and any Bank to exercise, in its sole discretion, any rights and remedies, or any combination thereof, which may then be available, since it is the intent and purpose of the Subsidiary Guarantors that the obligations hereunder shall be absolute, independent and unconditional under any and all circumstances. Notwithstanding any foreclosure of the lien of such deed of trust or mortgage with respect to any or all real or personal property secured thereby, whether by the exercise of the power of sale contained therein, by an action for judicial foreclosure or by an acceptance of a deed in lieu of foreclosure, the Subsidiary Guarantors shall remain bound under this Subsidiary Guaranty, including its obligation to pay any deficiency after a nonjudicial foreclosure.

2.9 Expenses. Subsidiary Guarantors agree to pay, or cause to be paid, and to save Administrative Agent and Banks harmless against liability for, any and all costs and expenses (including fees and disbursements of counsel and the allocated cost of inhouse counsel for the Administrative Agent) incurred or expended by Administrative Agent or any Bank in connection with the enforcement of or preservation of any rights under this Subsidiary Guaranty.

2.10 Continuing Guaranty; Termination of Subsidiary Guaranty. This Subsidiary Guaranty is a continuing guaranty and shall remain in effect until all of the Guaranteed Obligations shall have been indefeasibly paid in full, the Commitments shall have terminated and

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all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement. Anything contained in this Subsidiary Guaranty to the contrary notwithstanding, this Subsidiary Guaranty shall not apply to Guaranteed Obligations created after actual receipt by Administrative Agent of written notice (delivered in accordance with Section 5.2) from the Subsidiary Guarantors of its revocation as to future transactions; provided, however, that any such revocation shall not affect the Subsidiary Guarantors' liability for any Guaranteed Obligations outstanding at the time of receipt of such notice or any extension or renewal of such Guaranteed Obligations.

2.11 Authority of the Subsidiary Guarantors or Borrower. It is not necessary for Banks or Administrative Agent to inquire into the capacity or powers of the Subsidiary Guarantors or Borrower or the officers, directors or any agents acting or purporting to act on behalf of any of them.

2.12 Financial Condition of Borrower. Any Loans may be granted to Borrower or continued from time to time without notice to or authorization from the Subsidiary Guarantors regardless of the financial or other condition of Borrower at the time of any such grant or continuation. Banks and Administrative Agent shall have no obligation to disclose or discuss with the Subsidiary Guarantors their assessment, or the Subsidiary Guarantors' assessments, of the financial condition of Borrower. Subsidiary Guarantors have adequate means to obtain information from Borrower on a continuing basis concerning the financial condition of Borrower and its ability to perform its obligations under the Credit Agreement, and the Subsidiary Guarantors assume the responsibility for being and keeping informed of the financial condition of Borrower and of all circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations. Subsidiary Guarantors hereby waive and relinquish any duty on the part of Administrative Agent or any Bank to disclose any matter, fact or thing relating to the business, operations or conditions of Borrower now known or hereafter known by Administrative Agent or any Bank.

2.13 Rights Cumulative. The rights, powers and remedies given to Banks and Administrative Agent by this Subsidiary Guaranty are cumulative and shall be in addition to and independent of all rights, powers and remedies given to Banks and Administrative Agent by virtue of any statute or rule of law or in any of the other Loan Documents or any agreement between the Subsidiary Guarantors and Banks and/or Administrative Agent or between Borrower and Banks and/or Administrative Agent. Any forbearance or failure to exercise, and any delay by any Bank or Administrative Agent in exercising, any right, power or remedy hereunder shall not impair any such right, power or remedy or be construed to be a waiver thereof, nor shall it preclude the further exercise of any such right, power or remedy.

2.14 Bankruptcy; Post-Petition Interest; Reinstatement of Subsidiary Guaranty.

(a) The obligations of the Subsidiary Guarantors under this Subsidiary Guaranty shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Borrower or by any defense which Borrower may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.

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(b) Subsidiary Guarantors acknowledge and agree that any interest on any portion of the Guaranteed Obligations which accrues after the commencement of any proceeding referred to in clause (a) above (or, if interest on any portion of the Guaranteed Obligations ceases to accrue by operation of law by reason of the commencement of said proceeding, such interest as would have accrued on such portion of the Guaranteed Obligations if said proceedings had not been commenced) shall be included in the Guaranteed Obligations because it is the intention of the Subsidiary Guarantors and Administrative Agent that the Guaranteed Obligations which are guaranteed by the Subsidiary Guarantors pursuant to this Subsidiary Guaranty should be determined without regard to any rule of law or order which may relieve Borrower of any portion of such Guaranteed Obligations. Subsidiary Guarantors will permit any trustee in bankruptcy, receiver, debtor in possession, assignee for the benefit of creditors or similar person to pay Administrative Agent, or allow the claim of Administrative Agent in respect of, any such interest accruing after the date on which such proceeding is commenced.

(c) In the event that all or any portion of the Guaranteed Obligations are paid by Borrower, the obligations of the Subsidiary Guarantors hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from Administrative Agent or any Bank as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes under this Subsidiary Guaranty.

2.15 Set Off. In addition to any other rights any Bank or Administrative Agent may have under law or in equity, if any amount shall at any time be due and owing by the Subsidiary Guarantors to any Bank or Administrative Agent under this Subsidiary Guaranty, such Bank or Administrative Agent is authorized at any time or from time to time, without notice (any such notice being hereby expressly waived), to set off and to appropriate and to apply any and all deposits (general or special, including but not limited to indebtedness evidenced by certificates of deposit, whether matured or unmatured) and any other indebtedness of any Bank or Administrative Agent owing to the Subsidiary Guarantors and any other property of the Subsidiary Guarantors held by any Bank or Administrative Agent to or for the credit or the account of the Subsidiary Guarantors against and on account of the Guaranteed Obligations and liabilities of the Subsidiary Guarantors to any Bank or Administrative Agent under this Subsidiary Guaranty.

2.16 Discharge of Subsidiary Guaranty Upon Sale of the Subsidiary Guarantors. If all of the stock of the Subsidiary Guarantors or any of their successors in interest under this Subsidiary Guaranty shall be sold or otherwise disposed of (including by merger or consolidation) in an asset sale not prohibited by the Credit Agreement or otherwise consented to by Requisite Banks, the Subsidiary Guaranty of the Subsidiary Guarantors or such successor in interest, as the case may be, hereunder shall automatically be discharged and released without any further action by Administrative Agent or any Bank or any other Person effective as of the time of such asset sale. Notwithstanding the foregoing, so long as the Subsidiary Guarantors or their successor shall remain a Subsidiary of the Borrower and any Guaranteed Obligations remain outstanding, such the Subsidiary Guarantors or successor shall enter into a new Subsidiary Guaranty with the Administrative Agent for the benefit of the Banks.

SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce Banks and Administrative Agent to accept this Subsidiary Guaranty and to enter into the Credit Agreement and to make the Loans thereunder, the Subsidiary Guarantors hereby represent and warrant to Banks that the following statements are true and correct:

3.1 Corporate Existence. Each of the Subsidiary Guarantors is duly organized, validly existing and in good standing under the laws of the state of its incorporation, has the corporate power to own its assets and to transact the business in which it is now engaged and is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except for failures to be so qualified, authorized or licensed that would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of each respective Subsidiary Guarantor.

3.2 Corporate Power; Authorization; Enforceable Obligations. Each of the Subsidiary Guarantors has the corporate power, authority and legal right to execute, deliver and perform this Subsidiary Guaranty and all obligations required hereunder and has taken all necessary corporate action to authorize its Subsidiary Guaranty hereunder on the terms and conditions hereof and its execution, delivery and performance of this Subsidiary Guaranty and all obligations required hereunder. No consent of any other Person including, without limitation, stockholders and creditors of each of the Subsidiary Guarantors (other than those which have been obtained), and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by each of the Subsidiary Guarantors in connection with this Subsidiary Guaranty or the execution, delivery, performance, validity or enforceability of this Subsidiary Guaranty and all obligations required hereunder except such consents licenses, permits, approvals or authorizations which, if not obtained, either (i) would not adversely affect the ability of each of the Subsidiary Guarantors to perform the transactions contemplated by this Subsidiary Guaranty, or (ii) would not have a Material Adverse Effect. This Subsidiary Guaranty has been, and each instrument or document required hereunder will be, executed and delivered by a duly authorized officer of each of the Subsidiary Guarantors, and this Subsidiary Guaranty constitutes, and each instrument or document required hereunder when executed and delivered hereunder will constitute, the legally valid and binding obligation of each of the Subsidiary Guarantors, enforceable against each of the Subsidiary Guarantors in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws or equitable principles relating to or limiting creditors' rights generally.

3.3 No Legal Bar to this Subsidiary Guaranty. The execution, delivery and performance of this Subsidiary Guaranty and the documents or instruments required hereunder, and the use of the proceeds of the borrowings, and the issuance of the Letters of Credit will not violate any provision of any existing law or regulation binding on the Subsidiary Guarantors, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Subsidiary Guarantors, or the certificate of incorporation or bylaws of each of the Subsidiary Guarantors or any securities issued by each of the Subsidiary Guarantors, or any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the

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Subsidiary Guarantors are a party or by which the Subsidiary Guarantors or any of their assets may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of the Subsidiary Guarantors and will not result in, or require, the creation or imposition of any Lien on any of their property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking.

SECTION 4. AFFIRMATIVE COVENANTS.

So long as any Loan shall remain unpaid or any Bank shall have any Commitment hereunder and until the expiration, the cancellation and the payment

in full or cash collateralization of all Letters of Credit, the Subsidiary Guarantors covenant and agree, unless Requisite Banks shall otherwise consent in writing:

4.1 Corporate Existence, Etc. Except as permitted under Section 5.1 of the Credit Agreement, the Subsidiary Guarantors shall at all times preserve and keep in full force and effect its corporate existence and all rights and franchises material to its business.

4.2 Compliance with Laws, Etc. Subsidiary Guarantors shall perform and promptly comply with the requirements of all applicable laws, rules, regulations and orders other than those with which the failure to comply would not have a Material Adverse Effect, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges imposed upon it or upon any of its properties or assets or in respect of any of its franchises, businesses, income or property in accordance with Section 6.8 of the Credit Agreement.

4.3 Books and Records. Subsidiary Guarantors shall keep and maintain books of record and account with respect to their operations in accordance with generally accepted accounting principles and shall permit Administrative Agent or any Bank and their respective officers, employees and authorized agents, to the extent Administrative Agent in good faith deems necessary for the proper administration of this Subsidiary Guaranty, to examine, copy and make excerpts from the books and records of the Subsidiary Guarantors and their Subsidiaries and to inspect the properties of the Subsidiary Guarantors and their Subsidiaries, both real and personal, at such reasonable times as Administrative Agent may request.

SECTION 5. MISCELLANEOUS

5.1 Survival of Warranties. All agreements, representations and warranties made herein shall survive the execution and delivery of this Subsidiary Guaranty.

5.2 Notices. Any communications between Administrative Agent and the Subsidiary Guarantors and any notices or requests provided herein to be given may be given by mailing the same, postage prepaid, or by telex, facsimile transmission or cable to each such party at 222 West Las Colinas Boulevard, Suite 1500, Irving, Texas 75039, facsimile number (972) 443-6800. Any notice, request or demand to or upon Administrative Agent or Banks or the Subsidiary Guarantors shall not be effective until received.

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5.3 Severability. In case any provision in or obligation under this Subsidiary Guaranty shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

5.4 Amendments and Waivers. No amendment, modification, termination or waiver of any provision of this Subsidiary Guaranty, or consent to any departure by the Subsidiary Guarantors therefrom, shall in any event be effective without the written concurrence of Requisite Banks under the Credit Agreement; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all Banks change the number of Banks required to take any action hereunder. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

5.5 Headings. Section and Section headings in this Subsidiary Guaranty are included herein for convenience of reference only and shall not constitute a part of this Subsidiary Guaranty for any other purpose or be given any substantive effect.

5.6 APPLICABLE LAW. THIS SUBSIDIARY GUARANTY AND THE RIGHTS AND OBLIGATIONS OF SUBSIDIARY GUARANTORS, ADMINISTRATIVE AGENT AND BANKS HEREUNDER AND ALL OTHER ASPECTS HEREOF SHALL BE DEEMED TO BE MADE UNDER, SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE.

5.7 Successors and Assigns. This Subsidiary Guaranty is a continuing guaranty and shall be binding upon the Subsidiary Guarantors and their successors and assigns. This Subsidiary Guaranty shall inure to the benefit of Banks, Administrative Agent and their respective successors and assigns. Subsidiary Guarantors shall not assign this Subsidiary Guaranty or any of the rights or obligations of the Subsidiary Guarantors hereunder without the prior written consent of all Banks. Any Bank may, without notice or consent, assign its interest in this Subsidiary Guaranty in whole or in part in conjunction with the assignment of its interest in the Guaranteed Obligations. The terms and provisions of this Subsidiary Guaranty shall inure to the benefit of any assignee or transferee permitted under the Credit Agreement, and in the event of such transfer or assignment the rights and privileges herein conferred upon Banks and Administrative Agent shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof.

5.8 Consent to Jurisdiction; Waiver of Immunities. Subsidiary Guarantors hereby irrevocably submit to the jurisdiction of any California state or Federal court sitting in Los Angeles, California, in any action or proceeding arising out of or relating to this Subsidiary Guaranty, and the Subsidiary Guarantors hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such California state or Federal court. Subsidiary Guarantors hereby irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding. Subsidiary Guarantors hereby irrevocably appoint Borrower as its agent to receive, on behalf of the Subsidiary Guarantors and their property, service of copies of the summons and complaint and

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any other process which may be served in any such action or proceeding. Such service may be made by mail or by delivering a copy of such process to the Subsidiary Guarantors in care of the agent named above, and the Subsidiary Guarantors hereby irrevocably authorize and direct such agent to accept such service on its behalf. As an alternative method of service, the Subsidiary Guarantors also irrevocably consent to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the Subsidiary Guarantors at their addresses specified in Section 5.2 in accordance with the procedures for service by mail under California. Subsidiary Guarantors agree 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 Section 5.8 shall affect the right of any Bank or Administrative Agent to serve legal process in any other manner permitted by law or affect the right of any Bank or Administrative Agent to bring any action or proceeding against the Subsidiary Guarantors or their property in the courts of any other jurisdiction.

5.9 Waiver of Trial by Jury. SUBSIDIARY GUARANTORS AND, BY THEIR ACCEPTANCE OF THE BENEFITS HEREOF, ADMINISTRATIVE AGENT EACH HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS SUBSIDIARY GUARANTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Subsidiary Guarantors and, by their acceptance of the benefits hereof, Administrative Agent each (i) acknowledges that this waiver is a material inducement for the Subsidiary Guarantors and Administrative Agent to enter into a business relationship, that the Subsidiary

Guarantors and Administrative Agent have already relied on this waiver in entering into this Subsidiary Guaranty or accepting the benefits thereof, as the case may be, and that each will continue to rely on this waiver in their related future dealings and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS SUBSIDIARY GUARANTY. In the event of litigation, this Subsidiary Guaranty may be filed as a written consent to a trial by the court.

5.10 No Other Writing. This writing is intended by Subsidiary Guarantors and Administrative Agent as the final expression of this Subsidiary Guaranty and is also intended as a complete and exclusive statement of the terms of their agreement with respect to the matters covered hereby. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Subsidiary Guaranty. There are no conditions to the full effectiveness of this Subsidiary Guaranty.

5.11 Further Assurances. At any time or from time to time, upon the request of Administrative Agent or Requisite, Subsidiary Guarantors shall execute and deliver such further documents and do such other acts and things as Administrative Agent or Banks may reasonably request in order to effect fully the purposes of this Subsidiary Guaranty.

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IN WITNESS WHEREOF, Subsidiary Guarantors have executed this Subsidiary Guaranty by their duly authorized officers as of the date first above written.

By: _____

Name: _____

Title: _____

Accepted:

BANK OF AMERICA, N.A., AS
ADMINISTRATIVE AGENT

By: _____

Name: _____

Title: _____

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EXHIBIT F

INCREASED COMMITMENT ACCEPTANCE

Dated _____, 19__

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement").

Unless otherwise indicated in this Increased Commitment Acceptance (the "Acceptance"), the capitalized terms used in this Acceptance shall have the meanings given to such terms in the Credit Agreement.

1 [INSERT NAME OF BANK] (the "Bank") hereby agrees to increase its Tranche B Commitment in effect immediately prior to the Effective Date (as defined below) (the "Current Commitment") by an amount equal TO [INSERT AMOUNT OF PROPOSED INCREASED COMMITMENT] (the "Proposed Increased Commitment").

2 The effective date for this Acceptance shall be the Increase Date related to this Acceptance (the "Effective Date"); provided that this Acceptance has been fully executed and delivered to the Administrative Agent for acceptance and recording by the Administrative Agent on or prior to such Increase Date.

3 Upon such execution, delivery, acceptance and recording and as of the Effective Date, the Bank's Tranche B Commitment shall equal the sum of (a) the Current Commitment plus (b) the Proposed Increased Commitment.

4 Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement in respect of the Proposed Increased Commitment provided for in this Acceptance (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Bank.

5. This Acceptance shall be governed by and construed in accordance with the laws of the State of California.

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6. This Acceptance may be signed in any number of counterparts, each of which shall be an original, with the same as if the signatures were upon the same instrument.

[Bank]

By: _____

Name: _____

Title: _____

This Acceptance is hereby acknowledged and
agreed on as of the date set forth above.

BANK OF AMERICA, N.A., AS
ADMINISTRATIVE AGENT

By: _____

Name: _____

Title: _____

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EXHIBIT G

NEW COMMITMENT ACCEPTANCE

Dated _____, 19____

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

1. [INSERT NAME OF ACCEPTED BANK] (the "Accepted Bank") agrees to become a party to the Credit Agreement and to have the rights and perform the obligations of a Bank under the Credit Agreement, and to be bound in all respects by the terms of the Credit Agreement.

2. The Accepted Bank hereby agrees to a Tranche B Commitment of [INSERT AMOUNT OF PROPOSED NEW COMMITMENT] (the "Proposed New Commitment").

3. The Accepted Bank (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred in Section 5.3 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Acceptance; (ii) agrees that it will, independently and without reliance upon the Administrative Agent or any other Bank 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 the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under the Credit Agreement as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; (vi) specifies as its Domestic Lending Office (and address for notices) and Eurocurrency Lending Office the offices set forth beneath its name on the signature page(s) hereof; and (vii) attaches the declarations, certifications and other documents required under Section 10.22 of the Credit Agreement as to the Accepted Bank's status for purposes of determining exemption from withholding taxes with respect to all payments to be made to the Accepted Bank under the Credit Agreement or to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty.

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4. The effective date for this Acceptance shall be the Increase Date related to this Acceptance (the "Effective Date"); provided that this Acceptance has been fully executed and delivered to the Administrative Agent for acceptance and recording by the Administrative Agent on or prior to such Increase Date.

5. Upon such execution, delivery, acceptance and recording and as of the Effective Date, the Accepted Bank shall be a party to the Credit Agreement with a Tranche B Commitment equal to the Proposed New Commitment and, to the extent provided in this Acceptance, have the rights and obligations of a Bank thereunder.

6. Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement in respect of the Proposed New Commitment provided for in this Acceptance (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Accepted Bank.

7. This Acceptance shall be governed by and construed in accordance with the laws of the State of California.

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8. This Acceptance may be signed in any number of counterparts, each of which shall be an original, with the same as if the signatures were upon the same instrument.

ACCEPTED BANK

By:

Name:

Title:

This Acceptance is hereby acknowledged and
agreed on as of the date set forth above.

BANK OF AMERICA, N.A., AS ADMINISTRATIVE AGENT

By: _____

Name: _____

Title: _____

LENDING OFFICE AND ADDRESS FOR NOTICES

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EXHIBIT H

FORM OF SUBORDINATION AGREEMENT

SUBORDINATION AGREEMENT ("Agreement") dated [insert date] made by [NAME OF SUBSIDIARY], a _____ corporation (the "Subordinated Creditor"), and FLOWSERVE CORPORATION, a New York corporation (the "Borrower"), in favor of the Administrative Agent, the Banks and the Issuing Bank, each as defined in the Credit Agreement (as defined below).

R E C I T A L S

A. The Borrower has entered into that certain Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

B. The Borrower may from time to time become indebted to the Subordinated Creditor in the ordinary course of its business. All indebtedness and other obligations of the Borrower to the Subordinated Creditor now or hereafter existing, interest thereon and any fees, expenses and other amounts payable are hereinafter referred to as the "Subordinated Debt".

A G R E E M E N T

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Agreement to Subordinate. The Subordinated Creditor, for itself and its successors and assigns, hereby agrees and covenants that, to the extent set forth herein and on the terms and conditions set forth herein, the Subordinated Debt is and shall be subordinate in right of payment to the prior

indefeasible payment in full in cash of all "Obligations" (as defined in the Credit Agreement) of the Borrower now or hereafter existing under the Credit Agreement (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a)) (such obligations being the "Obligations").

Section 2. Insolvency. Upon any payment or distribution of assets of the Borrower or the estate created by the commencement of any Insolvency Proceeding (defined below), of any kind or character, whether in cash, securities or other property, the Administrative Agent, the Banks and the Issuing Bank shall first be entitled to receive payment in full of all Obligations in cash before the Subordinated Creditor shall be entitled to receive any payment or distribution on account of the Subordinated Debt. "Insolvency Proceeding" means any dissolution, winding up, liquidation, arrangement, reorganization, adjustment, protection, relief or composition of the Borrower or its debts, whether voluntary or involuntary, in any bankruptcy, insolvency,

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arrangement, reorganization, receivership, relief or other similar case or proceeding under any federal or state bankruptcy or similar law or upon an assignment for the benefit of creditors, any other marshaling of the assets and liabilities of the Borrower or otherwise.

Upon the occurrence of any proceeding under any Debtor Relief Law relating to Borrower or any of its Material Subsidiaries, any payment or distribution of assets or securities of the Borrower of any kind or character, whether in cash, property or securities to which the Subordinated Creditor would be entitled, shall be made by the Borrower or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, directly to the Administrative Agent on its behalf and on behalf of the Banks and the Issuing Bank for application to the payment in full in cash of all Obligations after giving effect to any concurrent payment or distribution to the Administrative Agent.

Section 3. Payment of Subordinated Debt. Nothing in this Agreement is intended to or shall impair, as between the Borrower and the Subordinated Creditor, the obligation of the Borrower, which is absolute and unconditional, to pay all principal, interest and other amounts payable with respect to the Subordinated Debt.

Section 4. Prohibited Payments. The Borrower agrees that it will not make any payment of any of the Subordinated Debt, or take any other action, in contravention of the provisions of this Agreement. All payments or distributions upon or with respect to the Subordinated Debt which are received by the Subordinated Creditor contrary to the provisions of this Agreement shall be received in trust for the benefit of the Administrative Agent, the Banks and the Issuing Bank, shall be segregated from other funds and property held by the Subordinated Creditor and shall be forthwith paid over to the Administrative Agent, on its behalf and on behalf of the Banks and the Issuing Bank in the same form as so received (with any necessary endorsement) to be applied (in the case of cash) to, or held as collateral (in the case of non-cash property or securities) for, the payment or prepayment of the Obligations in accordance with the terms of the Credit Agreement.

Section 5. Amendments, Etc. No amendment or waiver of any provision of this Agreement, and no consent to any departure by the Subordinated Creditor or the Borrower herefrom shall in any event be effective unless the same shall be in writing and signed by the Requisite Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 6. Expenses. The Subordinated Creditor and the Borrower jointly

and severally agree upon demand to pay to the Administrative Agent, the Banks and the Issuing Bank the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel (including allocated costs of inhouse counsel for the Administrative Agent) and of any experts or agents, which such person may incur in connection with the exercise or enforcement of any of the rights of such person hereunder or the failure by the Subordinated Creditor or the Borrower to perform or observe any of the provisions hereof.

Section 7. Addresses for Notices. All notices and other communications provided for hereunder shall be delivered by Requisite Notice, if to the Subordinated Creditor, at the address for Borrower provided in the Credit Agreement; and if to the Borrower, the Administrative

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Agent, any Bank or the Issuing Bank at its address specified in the Credit Agreement, or as to each party, at such other address as shall be designated by such party in a written notice to each other party. All such notices and other communications shall be effective as provided in Section 10.6 of the Credit Agreement.

Section 8. No Waiver; Remedies. No failure on the part of the Administrative Agent, the Banks or the Issuing Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 9. Continuing Agreement; Assignments Under the Credit Agreement. This Agreement is a continuing agreement and shall (i) remain in full force and effect until the payment in full of the Obligations, (ii) be binding upon the Subordinated Creditor, the Borrower and their respective successors and assigns, and (iii) inure to the benefit of, and be enforceable by the Administrative Agent, the Banks and the Issuing Bank and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii) any of the Administrative Agent, the Banks or the Issuing Bank may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all rights in respect thereof granted to such Person herein or otherwise.

Section 10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Section 11. Waiver of Jury Trial. Each party hereto, and each of the Administrative Agent, Banks and Issuing Bank by their acceptance of the benefits hereof, irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the transactions contemplated hereby.

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IN WITNESS WHEREOF, the Subordinated Creditor and the Borrower each has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

SUBORDINATED CREDITOR:

By: _____

Name: _____

Title: _____

BORROWER

FLOWSERVE CORPORATION

By: _____

Name: _____

Title: _____

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EXHIBIT I

OPINION OF COUNSEL

[, 1999

To each lender whose name is set forth on the signature pages of the Credit Agreement (collectively the "Banks" and individually, a "Bank"), Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent.

Ladies and Gentlemen:

I am Senior Associate General Counsel of Flowserve Corporation, a New York corporation (the "Borrower"), and have represented the Borrower in connection with the negotiation, execution and delivery of that certain Credit Agreement dated as of October 7, 1999 entered into by and among Borrower, the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (the "Credit Agreement;" the terms defined therein being used herein as therein defined). This opinion is being furnished to you pursuant to Section 4.1(a)(5) of the Credit Agreement.

I have made such inquiry of such officers of the Borrower and examined such records, documents, instruments and certificates of public officials and of the Borrower and considered such questions of law as I have deemed necessary for the purpose of rendering the opinions set forth herein. I have assumed the genuineness of all signatures other than those of the Borrower and each Material

Subsidiary and the authenticity of all items submitted to me as originals and the conformity with originals of all items submitted to me as copies. I am opining herein as to the effect on the subject transactions of United States Federal Law, the laws of the State of California and the General Corporation Law of the State of Delaware.

Based upon and subject to the foregoing, I am of the opinion that:

1. Each of Borrower and the Material Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own or lease and operate its respective properties and to carry on its business as now conducted, and to execute and deliver, and to perform all of its obligations under, any Loan Document to which it is a party, and the transactions and documents contemplated thereby to which it is a party. Each of Borrower and the Material Subsidiaries is duly qualified or licensed to do business as a foreign corporation and in good standing in all jurisdictions in which it owns or leases assets and property or in which the conduct of its business requires it to so qualify or be licensed, except where the failure to so qualify or be licensed would not have a Material Adverse Effect.

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2. The execution, delivery and performance of the Loan Documents by Borrower and each Material Subsidiary that is a party to a Loan Document, the payment and performance of all Obligations, and the consummation of the transactions contemplated by the Loan Documents are within each such entity's corporate powers, have been duly authorized by all necessary corporate action by Borrower and each Material Subsidiary which is a party to a Loan Document, do not contravene (a) Borrower's or such Material Subsidiary's certificate of incorporation or bylaws, or (b) any law, rule, regulation (including, without limitation, Regulation U or X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award or any contractual restriction binding on or affecting Borrower or such Material Subsidiary or any of its respective properties, and do not result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties; neither Borrower nor any Material Subsidiary is in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination, award or restriction, in any respect which could reasonably be expected to have a Material Adverse Effect.

3. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, Borrower or any Material Subsidiary of any Loan Document except for routine corporate filings to maintain the corporate good standing of Borrower and any Material Subsidiary.

4. No authorization, consent, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is currently or is reasonably expected to be required on the part of Borrower or any Material Subsidiary that is a party to a Loan Document for the due execution, delivery or performance by Borrower or any Material Subsidiary of any Loan Document, the payment and performance of the Obligations by Borrower or any Material Subsidiary and the consummation of the transactions contemplated by the Loan Documents, except such authorizations, consents, approvals, other actions, notices or filings which, if not obtained, either (a) could not reasonably be expected to adversely affect the ability of Borrower or any Material Subsidiary that is a party to a Loan Document to perform the transactions contemplated by the Loan Documents or (b) could not reasonably be expected to have a Material Adverse Effect.

5. The Credit Agreement and each other Loan Document have been duly executed and delivered by Borrower and each Material Subsidiary which is a party

thereto. The Credit Agreement and each other Loan Document and the Obligations are legally valid and binding obligations of Borrower and each Material Subsidiary which is a party thereto, enforceable against Borrower or such Material Subsidiary in accordance with their respective 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.

6. To my knowledge, no actions, suits, investigations, litigation or proceedings are pending or threatened against or affecting Borrower or any Material Subsidiary or the properties of Borrower or any Material Subsidiary before any court, arbitrator or governmental agency, department, commission, board, bureau or instrumentality, domestic or foreign, (a) which could

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reasonably be expected to have a Material Adverse Effect or (b) which purport to affect the legality, validity or enforceability of the Credit Agreement and any other Loan Document.

7. Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or the Investment Company Act of 1940, each as amended, or to any Federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money. No Material Subsidiary is subject to any regulation that would limit the ability of Borrower to enter into or perform its obligations under the Credit Agreement.

8. It is not necessary in connection with the execution and delivery of the Credit Agreement and the Notes to register the Credit Agreement or the Notes under the Securities Act of 1933, as amended, or to qualify an indenture in respect thereof under the Trust Indenture Act of 1939, as amended.

This opinion is furnished by me as Senior Associate General Counsel for Borrower and any Material Subsidiary and may be relied upon by you only in connection with the Credit Agreement and the other Loan Documents. It may not be used or relied upon by you for any other purpose or by any other person, nor may copies be delivered to any other person other than (a) attorneys for and auditors of the Banks, the Administrative Agent, the Syndication Agent, the Documentation Agent, (b) governmental officials with regulatory authority with respect to the business of the Banks and (c) bona fide assignees under the Loan Documents, without in each instance my prior written consent.

Very truly yours,

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EXHIBIT J

OPINION OF ADMINISTRATIVE AGENT'S COUNSEL

[], 1999

Bank of America, N.A.
as Administrative Agent
Agency Management-Los Angeles #20529
555 South Flower Street
Los Angeles, California 90071

and

To each of the Banks party to the Credit
Agreement

Re: Credit Agreement dated as of October 7, 1999 entered into by and among Flowserve Corporation, a New York corporation (the "Borrower"), each lender whose name is set forth on the signature pages of the Credit Agreement (collectively the "Banks" and individually, a "Bank"), Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent.

Ladies and Gentlemen:

We have acted as counsel to Bank of America, N.A., as Administrative Agent, in connection with the preparation and delivery of a Credit Agreement dated as of October 7, 1999 (the "Credit Agreement") entered into by and among FLOWSERVE CORPORATION, a New York corporation, (the "Borrower"), each lender whose name is set forth on the signature pages of the Credit Agreement (collectively, the "Banks" and individually, a "Bank"), Bank of America, N.A. as Administrative Agent and Issuing Bank, Bank One, Texas, NA, as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent. Unless otherwise indicated, capitalized terms used herein but not otherwise defined herein have the respective meanings set forth in the Credit Agreement.

We have participated in various conferences with representatives of the Borrower and the Administrative Agent during which the Credit Agreement and related matters have been discussed. We have reviewed the forms of the Credit Agreement and the exhibits thereto, including the form of the promissory notes annexed thereto (the "Notes") and the opinion of John Nanos, Esq. (the "Opinion") and the officers' certificates and other documents delivered on

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the date hereof. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals or copies and the due authority of all persons executing the same, and we have relied as to factual matters on the documents that we have reviewed.

On the basis of the foregoing, we are of the opinion that:

1. The Credit Agreement constitutes the legally valid and binding obligation of the Borrower, and the Notes constitute the legally valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws) and by general principles of equity, including, without

limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law.

2. The Opinion is satisfactory in form to us and we believe you are justified in relying thereon.

In giving the opinion in paragraph 1, we have assumed, without independent investigation, that the Credit Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Borrower, and have been duly executed and delivered by the Borrower, and that the Borrower is a corporation duly organized, validly existing and in good standing under the jurisdiction of its incorporation. We understand that you are relying on the Opinion with respect to such matters.

Our opinion as to the enforceability of the Credit Agreement is subject to:

(i) public policy considerations, statutes or court decisions that may limit the rights of a party to obtain indemnification against its own negligence or willful misconduct; and

(ii) the unenforceability under certain circumstances of broadly or vaguely stated waivers or waivers of rights granted by law where the waivers are against public policy or prohibited by law.

We express no opinion with respect to your ability to collect attorneys' fees and costs in an action involving the Credit Agreement if you are not the prevailing party in that action (we call your attention to the effect of Section 1717 of the California Civil Code, which provides that where a contract permits one party thereto to recover attorneys' fees, the prevailing party in any action to enforce any provision of the contract shall be entitled to recover its reasonable attorneys' fees).

We express no opinion as to any provision of the Credit Agreement requiring written amendments or waivers of the Credit Agreement insofar as it suggests that oral or other modifications, amendments or waivers could be effectively agreed upon by the parties or that the doctrine of promissory estoppel might not apply.

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In addition, we express no opinion as to the effect of non-compliance by you with any state or federal laws or regulations applicable to the transactions contemplated by the Credit Agreement because of the nature of your business.

The law covered by this opinion is limited to present federal law and the present law of the State of California. We express no opinion as to the laws of the any other jurisdiction and no opinion regarding the statutes, administrative decisions, rules, regulations or requirements or any country, municipality, subdivision or local authority of any jurisdiction.

This opinion is furnished by us as special counsel for the Administrative Agent and may be relied upon by you only in connection with the Credit Agreement. It may not be used or relied upon by you for any other purpose or by any other person, nor may copies be delivered to any other person, without in each instance our prior written consent other than to attorneys for and auditors of the Banks, the Administrative Agent, the Syndication Agent, and the Documentation Agent, to governmental officials with regulatory authority with respect to the business of the Banks, and to bona fide assignees under the Loan Documents.

Respectfully submitted

SCHEDULE 2.1

COMMITMENTS
AND PRO RATA SHARES

ALLOCATIONS FOR FLOWSERVE

BANKS -----	TITLE -----	TOTAL ALLOCATION -----	% OF FACILITIES -----	TRANCHE A REVOLVER ALLOCATION -----
Bank of America	Administrative Agent	\$100,000,000.00	21.73913043%	\$ 60,000,000.00
Bank One	Syndication Agent	\$100,000,000.00	21.73913043%	\$ 60,000,000.00
ABN Amro	Documentation Agent	\$ 75,000,000.00	16.30434783%	\$ 45,000,000.00
BCI	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
BNP	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
BOT-Mitsubishi	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
DG Bank	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
HSBC	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
IBJ	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
National City	Participant	\$ 25,000,000.00	5.43478261%	\$ 15,000,000.00
Bank Hapoalim	Participant	\$ 10,000,000.00	2.17391304%	\$ 6,000,000.00
		-----	-----	-----
	TOTAL	\$460,000,000.00	100.00000000%	\$276,000,000.00
		=====	=====	=====
	5-year R/C	\$276,000,000.00	60.00000000%	
	364-Day R/C	\$184,000,000.00	40.00000000%	

BANKS -----	TITLE -----	% OF TRANCHE A REV -----	TRANCHE B REVOLVER ALLOCATION -----	% OF TRANCHE B REV -----
Bank of America	Administrative Agent	21.73913043%	\$ 40,000,000.00	21.73913043%
Bank One	Syndication Agent	21.73913043%	\$ 40,000,000.00	21.73913043%
ABN Amro	Documentation Agent	16.30434783%	\$ 30,000,000.00	16.30434783%
BCI	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
BNP	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
BOT-Mitsubishi	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
DG Bank	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
HSBC	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
IBJ	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
National City	Participant	5.43478261%	\$ 10,000,000.00	5.43478261%
Bank Hapoalim	Participant	2.17391304%	\$ 4,000,000.00	2.17391304%
		-----	-----	-----
	TOTAL	100.00000000%	\$184,000,000.00	100.00000000%
		=====	=====	=====

SCHEDULE 5.1
SUBSIDIARIES

SUBSIDIARY
Durametallic Australia Holding Co.
Durco B.V. Holland

Flowserve Ahaus GmbH
 Flowserve Australia Pty. Ltd.
 Flowserve B.V.
 Flowserve Coordination Center S.A.
 Flowserve de Venezuela S.A.
 Flowserve Dichtungstechnik GmbH
 Flowserve Dortmund GmbH
 Flowserve Dortmund Verwaltungs GmbH
 Flowserve Essen GmbH
 Flowserve FCD Corporation
 Flowserve FSD Corporation
 Flowserve FSD N.V.
 Flowserve FSD Pty Ltd.
 Flowserve Holding, Inc.
 Flowserve Inc. (Canada)
 Flowserve International B.V.
 Flowserve International, Inc.
 Flowserve International Ltd.
 Flowserve Ireland Limited
 Flowserve Japan K.K.
 Flowserve Limited (U.K.)
 Flowserve Management Company
 Flowserve (Mauritius) Corporation
 Flowserve New Mexico, Inc.
 Flowserve New Zealand Limited
 Flowserve Pte Ltd (Singapore)
 Flowserve Pty. Ltd
 Flowserve RED Corporation
 Flowserve RED S.A.
 Flowserve S.A. (Argentina)
 Flowserve S.A. (Spain)
 Flowserve S.A. (Switzerland)
 Flowserve S.A. de C.V.
 Flowserve S.A.S.
 Flowserve Services B.V.
 Flowserve Spa
 Flowserve SRD S.A.
 Valtek South Africa

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SCHEDULE 7.1

EXISTING DEBT, EXISTING LETTERS OF CREDIT AND SURETY AND PERFORMANCE BONDS OF BORROWER AND MATERIAL SUBSIDIARIES

SCHEDULE 7.1			
SUBSIDIARY	TOTAL DEBT	TOTAL LC	SURETY AND PERFORMANCE
	(IN 000'S)	(IN 000'S)	(IN 000'S)
Durametallic Australia Holding Co.			
Durco B.V. Holland			
Flowserve Ahaus GmbH			
Flowserve Australia Pty. Ltd.		1,500.00	

Flowserve B.V.	12,289.98	
Flowserve Coordination Center S.A.		
Flowserve de Venezuela S.A.		
Flowserve Dichtungstechnik GmbH		
Flowserve Dortmund GmbH		
Flowserve Dortmund Verwaltungs GmbH		
Flowserve Essen GmbH		
Flowserve FCD Corporation		
Flowserve FSD Corporation		
Flowserve FSD N.V.		
Flowserve FSD Pty Ltd.		
Flowserve Holding, Inc.	64,640.25	2,339.96
Flowserve Inc. (Canada)		
Flowserve International B.V.		
Flowserve International, Inc.		
Flowserve International Ltd.		
Flowserve Ireland Limited		
Flowserve Japan K.K.		
Flowserve Limited (U.K.)		
Flowserve Management Company		
Flowserve (Mauritius) Corporation		
Flowserve New Mexico, Inc.		
Flowserve New Zealand Limited		
Flowserve Pte Ltd (Singapore)		
Flowserve Pty. Ltd		
Flowserve RED Corporation		
Flowserve RED S.A.		
Flowserve S.A. (Argentina)		
Flowserve S.A. (Spain)		
Flowserve S.A. (Switzerland)		
Flowserve S.A. de C.V.		
Flowserve S.A.S.		
Flowserve Services B.V.		
Flowserve Spa		
Flowserve SRD S.A.		
Valtek South Africa		

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JOINT VENTURE
Arabian Seals Company Ltd.
Durametalllic (India) Ltd.
Ebara-Byron Jackson, Ltd.
Flowserve Ababsain Co. Ltd.
Flowserve-AI Mansoori Services Company Ltd.
Flowserve India Controls Pvt. Ltd.
Flowserve Ltda
Flowserve Microfinish Pumps Pvt. Ltd.

Flowserve Microfinish Valves Pvt. Ltd.		
Flowserve Sdn Bhd		
Flowserve Siam Co. Ltd.		
Hyosung-Ebara Co. Ltd.		
Korea Seal Master Company Ltd.		
PT Flowserve		
TOTAL	78,430.23	2,339.96

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SCHEDULE 7.4
EXISTING JOINT VENTURES

JOINT VENTURE	FLOWSERVE % OF JOINT VENTURE
Arabian Seals Company Ltd.	40%
Durametalllic (India) Ltd.	40%
Ebara-Byron Jackson, Ltd.	40%
Flowserve Ababsain Co. Ltd.	60%
Flowserve-AI Mansoori Services Company Ltd.	40%
Flowserve India Controls Pvt. Ltd.	95%
Flowserve Ltda	99.9%
Flowserve Microfinish Pumps Pvt. Ltd.	76%
Flowserve Microfinish Valves Pvt. Ltd.	76%
Flowserve Sdn Bhd	70%
Flowserve Siam Co. Ltd.	60%
Hyosung-Ebara Co. Ltd.	5%
Korea Seal Master Company Ltd.	40%
PT Flowserve	75%

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SCHEDULE 10.6

OFFSHORE AND DOMESTIC LENDING OFFICES,
ADDRESSES FOR NOTICES

BORROWER

Flowserve Corporation
222 West Las Colinas Boulevard
Suite 1500

Irving, Texas 75039

Attention: Treasurer
 Telephone: (972) 443-6500
 Facsimile: (972) 443-6800

ADMINISTRATIVE AGENT'S OFFICE:

Notices (other than Requests for Extensions of Credit):

Bank of America, N.A., as Administrative Agent

Agency Management-Los Angeles

Mail Code: CA9-706-11-03

555 South Flower Street, 11th Floor

Los Angeles, California 90071

Attention: Gina Meador
 Vice President
 Telephone: (213) 228-5245
 Facsimile: (213) 228-2299

Requests for Extensions of Credit:

Bank of America, N.A.

Agency Administrative Services #5596

Mail Code: CA4-706-05-09

1850 Gateway Boulevard, 5th Floor

Concord, California 94520

Attention: Kathy Eddy
 Assistant Vice President
 Telephone: (925) 675-8458
 Facsimile: (925) 969-2810
 Account No.: 3750836479
 Ref: Flowserve Corporation
 Att: Agency Services-West
 ABA No. 111 000 012

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BANK OF AMERICA, N.A., AS A BANK

Domestic and Offshore Lending Office:

Agency Administrative Services #5596

Mail Code: CA4-706-05-09

1850 Gateway Boulevard, 5th Floor

Concord, California 94520

Attention: Kathy Eddy
 Assistant Vice President
 Telephone: (925) 675-8458
 Facsimile: (925) 969-2810

Notices (other than Requests for Extensions of Credit):

Bank of America, N.A., as a Bank

Mail Code: CA9-706-11-07

555 South Flower Street, 11th Floor

Los Angeles, California 90071

Attention: Therese Fontaine
 Principal-Sr. Credit Manager
 General Corporate West #5618
 Telephone: (213) 228-2053
 Facsimile: (213) 623-1959

BANK OF AMERICA, N.A., AS ISSUING BANK

Trade Operations Center - Standby Letters
of Credit #22621
Mail Code: CA9-703-19-23
333 S. Beaudry Ave., 19th Floor
Los Angeles, CA 90017
Attention: Sandra Leon
Vice President
Telephone: (213) 345-5231
Facsimile: (213) 345-6694

BANKS:

BANK ONE, TEXAS, NA, AS A BANK

Domestic and Eurodollar Lending Office:
1717 Main Street, 3rd Floor
Dallas, TX 75201

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Address for Credit Contact:
Attention: Gina Norris
Senior Vice President
1717 Main Street, 3rd Floor
Dallas, TX 75201
Telephone: (214) 290-3042
Facsimile: (214) 290-2765

Address for Operations Contact, Bid Contact and Letters of Credit Contact:
Attention: Janice Anderson
500 Taylor St
Ft. Worth, TX 76102
TX1-1400
Telephone: (817) 884-5159
Facsimile: (817) 884-4651

Address for Legal Counsel:
Attention: Richard Archer
One Bank One Plaza
Chicago, IL 60670
Telephone: (312) 732-6926

Payment Instructions - Lender's Fed Wire and Standby Letters of Credit Fed Wire
Pay to: Bank One, Texas, N.A.
ABA No: 111000614
Dallas TX
Account No: 1065151010
Account Name: Commercial Loan Services Center - South Region
Attention: Special Servicing, Commercial Loan Servicing Center
- South Region
Reference: Flowserve

NATIONAL CITY BANK, AS A BANK

Domestic and Eurodollar Lending Office:
1900 East Ninth Street
Cleveland, OH 44114

Address for Credit Contact and Draft Documentation Contact:
Attention: Jeffrey L. Hawthorne
Vice President
155 East Broad St

Mak Loc. 0019
Columbus, OH 43251
Telephone: (614) 463-7298
Facsimile: (614) 463-7172

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Address for Operation Contact and Letters of Credit Contact:

Attention: Revette Vickerstaff
Manager
Telephone: (216) 488-7080
Facsimile: (216) 488-7110

Bid Contact:

Attention: Connie Djakie
Telephone: (216) 575-2578
Facsimile: (216) 575-2481

Payment Instructions - Lender's Fed Wire and Standby Letters of Credit Fed Wire:

Pay to: National City Bank
ABA No.: 041000124
Cleveland, OH 44114
Account No: 151804
Account Name: Commercial Loan Ops
Reference: Flowserve Corp.

ABN AMRO BANK N.V., AS A BANK

Domestic and Eurodollar Lending Office:

208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Attention: Joe Coriaci
Credit Administration
Telephone: (312) 992-5118
Facsimile: (312) 992-5111

With a copy to:

ABN AMRO Bank N.V.
Three Riverway, Suite 1700
Houston, TX 77056
Attention: Diego Puiggari
Telephone: (713) 964-3311
Facsimile: (713) 961-1699

Address for Loan Administration Contact:

Attention: Suzanne Smith
Loan Administration
ABN AMRO BANK N.V.
208 South LaSalle Street, Suite 1500
Chicago, IL 60604-1003
Telephone: (312) 992-5095
Facsimile: (312) 992-5158

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Address for Letter of Credit Contact:

Attention: Rose Taylor
Trade Services Department
200 West Monroe Street, Suite 1100

Chicago, IL 60606-5002
Telephone: (888) 226-5113
Facsimile: (888) 226-5119

With a copy to:

Attention: Diego Puiggari
ABN AMRO Bank N.V.
Three Riverway, Suite 1700
Houston, TX 77056
Telephone: (713) 964-3311
Facsimile: (713) 961-1699

Payment Instructions - Fees, Interest and Loan Repayments:

Pay to: ABN Amro Bank N.V.
New York, NY
ABA No: 026009580
F/O ABN AMRO Bank N.V.
Chicago Branch CPU
Account No: 650-001-1789-41
Reference: Flowserve, Inc.

Payment Instructions - Letters of Credit:

Pay to: ABN Amro Bank N.V.
New York, NY
ABA No: 026009580
F/O ABN AMRO Bank N.V.
Chicago Trade Services CPU
Account No: 653-001-1738-41
Reference: Flowserve, Inc.

THE INDUSTRIAL BANK OF JAPAN, LIMITED, AS A BANK

Domestic and Eurodollar Lending Office:
1251 Avenue of the Americas,
New York, NY 10020-1104

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Address for Credit Matters Contact, Compliance Information Contact, and
Execution of Legal Documents Contact:

Attention: Mr. Dan Davis
Vice President
Three Allen Center
Suite 4850
333 Clay Street
Houston, TX 77002
Telephone: (713) 651-9444 ext. 103
Facsimile: (713) 651-9209

Address for Operations/Administration Contact:

Attention: Mr. Richard Emmich, Vice President OR
Mr. Nelson Andre, Credit Administration
The Industrial Bank of Japan, Limited
New York Branch
1251 Avenue of the Americas
New York, New York 10020-1104
Telephone: (212) 282-4092 / 282-4091
Telex No.: 17 55 99/1BJRUT
Telefax No.: (212) 282-4480 / 282-4250

Address for Bid Notices Contact:

Attention: Blanca Aveiga
Credit Officer

Three Allen Center
Suite 4850
333 Clay Street,
Houston, TX 77002
Telephone: (713) 651-9444 ext. 103
Telecopier: (713) 651-9209

Payment Instructions - Interest, Principal and Fees:
Pay To: The Industrial Bank of Japan, Limited
New York Branch
ABA No.: 026008345
Reference: Flowserve Corporation

HSBC BANK USA, AS A BANK

Domestic and Eurodollar Lending Office:
140 Broadway
New York, NY 1005-1196

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Address for Business/Credit Contact and Draft Documentation Contact:

Attention: John Reed
Relationship Officer
HSBC Bank USA
600 Travis Street, Suite 6750
Houston, TX 77002-3049
Telephone: (713) 224-6535
Facsimile: (713) 224-3666
Email Address: hsbchou@sprintmail.com

Address for Administration and Operations Contact, Money Market Bids Contact,
and Letters of Credit Contact

Attention: Donna Riley
Agency Servicing Manager
HSBC Bank USA
1 HSBC Center
Buffalo, NY 14203
Telephone: (716) 841-4178
Facsimile: (716) 841-1844

Payment Instructions - Lender's Fed Wire:

Bank Name: HSBC Bank USA
ABA No.: 021-001-088
Name on Account: Commercial Loan
Account No.: 001-940-503
Reference: Flowserve Corporation
Attention: Asset Syndication

Payment Instructions - Lender's Standby Letters of Credit Fed Wire:

Bank Name: HSBC Bank USA
ABA No.: 021-001-088
Name on Account: Commercial Loan
Account No.: 001-940-503
Reference: Flowserve Corporation
Attention: Asset Syndication

BANK HAPOLIM B.M. AS A BANK

Domestic and Eurodollar Lending Office:
Bank Hapoolim B.M.
1177 Avenue of the Americas

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Address for Credit Contact:

Attention: Marianna Curguz
Banking Officer
1177 Avenue of the Americas
New York, NY 10036
Telephone: (212) 782-2184
Facsimile: (212) 782-2187

Operations Contact and Bid Contact:

Attention: Donna Gindoff
Telephone: (212) 782-2179
Facsimile: (212) 782-2187

Payment Instructions - Lender's Fed Wire and Standby Letters of Credit Fed Wire:

Pay to: Bank of New York
ABA No. 021000018
Account No.: 8023015103
Acct Name: Bank Hapoalim
Attention: Donna Gindoff

THE BANK OF TOKYO - MITSUBISHI, LTD., AS A BANK

Domestic and Eurodollar Lending Office:

1100 Louisiana St., Suite 2800
Houston, TX 77002-5216

Address for Credit Contact:

Attention: Doug Barnell
Vice President
2001 Ross Ave., Suite 3150
Dallas, TX 75201
Telephone: (214) 954-1200 ext. 105
Facsimile: (214) 954-1007
Email Address: dbarnell@btmny.com

Address for Operations Contact:

Attention: Nadra Breir
Administrator
1100 Louisiana, Suite 2800
Houston, TX 77002-5216
Telephone: (713) 655-3847
Facsimile: (713) 658-0116

Payment Instructions - Lender's Fed Wire and Standby Letters of Credit Fed Wire:

Pay to: The Bank of Tokyo-Mitsubishi, Ltd.
Houston Agency
ABA No.: 0260-0963-2
New York, NY
Account No. 30001710
Reference: Flowserve Corp. Interest, fees, etc.

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BANQUE NATIONALE DE PARIS, AS A BANK

Domestic and Eurodollar Lending Office:
333 Clay Street, Suite 3400
Houston, TX 77002

Address for Credit Contact and Draft Documentation Contact:

Attention: Henry Setina
Vice President
12201 Merit Dr., Suite 860
Dallas, TX 75251
Telephone: (972) 788-9191
Facsimile: (972) 788-9140

Address for Operations Contact and Bid Contact:

Attention: Donna Rose
Vice President
333 Clay Street, Suite 3400
Houston, TX 77002
Telephone: (713) 951-1240
Facsimile: (713) 659-1414

Payment Instructions - Lender's Fed Wire:

Pay to: Banque Nationale de Paris, New York Branch
ABA No. 026007689
Account No.: 14101100169
Acct Name: BNP Houston Agency
Attention: Donna Rose

BANCA COMMERCIALE ITALIANA, LOS ANGELES FOREIGN BRANCH, AS A BANK

Domestic Lending Office:
555 South Flower Street
Los Angeles, CA 90071

Eurodollar Lending Office:
One William Street
New York, NY 10004

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Address for Credit Contact, Bid Contact and Draft Documentation Contact:

Attention: Charles Dougherty
Vice President
One William St., 6th Floor
New York, NY 10004
Telephone: (212) 607-3656
Facsimile: (212) 809-2124

Address for Operations Contact:

Attention: Jonathan Sahr
Supervisor
One William St., 8th Floor
New York, NY 10004
Telephone: (212) 607-3814
Facsimile: (212) 607-3897

Address for Letters of Credit Contact:

Attention: Barbara Coviell
Supervisor
One William St., 2nd Floor
New York, NY 10004

Telephone: (212) 607-3816
Facsimile: (212) 607-3537

Address for Legal Counsel:
Attention: Bob Poster
Attorney
One William St., 5th Floor
New York, NY 10004
Telephone: (212) 425-3220
Facsimile: (212) 425-3130

Payment Instructions - Lender's Fed Wire:
ABA#: 026005319
Account #: BCA Italiana
New York, NY
Account Name: BCI Los Angeles 903700110001
Attention: Loan Department

DG BANK DEUTSCHE GENOSSENSCHAFTSBANK AG, AS A BANK

Address of Domestic and Eurodollar Lending Office:
609 Fifth Avenue,
New York, NY 10017-1021

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Address for Credit Contact and Bid Loan Notices:
Attention: Craig Anderson
Assistant Vice President
609 Fifth Avenue
New York, NY 10017-1021
Phone: (212) 745-1583
Facsimile: (212) 745-1556/1550

Backup Credit Contact:
Attention: Richard Wilbert
Vice President
609 Fifth Avenue
New York, NY 10071-1021
Phone: (212) 745-1526
Facsimile: (212) 745-1556/1550

Address for Administrative Contact - Borrowings, Paydowns, Interest, Fees:
Attention: Ed Thome
Assistant Vice President
609 Fifth Avenue
New York, NY 10017-1021
Phone: (212) 745-1464
Facsimile: (212) 745-1422

Payment Instructions:
1. DG Bank
via Chips System
DG Bank ABA No. 026008455
2. Federal Reserve Bank of New York
Routing/Account No. 02600845

MATERIAL SUBSIDIARY GUARANTY

This Material Subsidiary Guaranty is entered into as of October 7, 1999 by Flowserve FCD Corporation, a Delaware corporation, Flowserve FSD Corporation, a Delaware corporation, Flowserve RED Corporation, a Delaware corporation and Flowserve International, Inc., a Delaware corporation, (collectively, "Subsidiary Guarantors"), jointly and severally, in favor of and for the benefit of Bank of America, N.A., as Administrative Agent for and representative of (in such capacity herein called "Administrative Agent") itself, the Banks and the Issuing Bank (as each such term is defined in the Credit Agreement referenced below).

RECITALS

A. Flowserve Corporation, a New York corporation (the "Borrower") is entering into that certain Credit Agreement dated as of October 7, 1999 entered into by and among Borrower, the banks from time to time party thereto, Bank of America, N.A., as Administrative Agent and Issuing Bank, Bank One, Texas, N.A., as Syndication Agent and ABN Amro Bank N.V., as Documentation Agent (as extended, renewed, amended or restated from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined).

B. A portion of the proceeds of the Loans may be loaned to the Subsidiary Guarantors and Letters of Credit may be issued for the benefit of the Subsidiary Guarantors and thus the Guaranteed Obligations (as hereinafter defined) are being incurred for and will inure to the benefit of the Subsidiary Guarantors (which benefits are hereby acknowledged).

C. It is a condition precedent to the making of the Loans and issuance of Letters of Credit that Borrower's obligations under the Credit Agreement be guaranteed by the Subsidiary Guarantors.

D. Subsidiary Guarantors are willing irrevocably and unconditionally to guaranty such obligations of Borrower.

NOW, THEREFORE, based upon the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce Banks, the Issuing Bank and Administrative Agent to make the Loans and issue Letters of Credit, the Subsidiary Guarantors hereby agree as follows:

SECTION 1. DEFINITIONS

1.1 Certain Defined Terms. As used in this Subsidiary Guaranty, the following terms shall have the following meanings unless the context otherwise requires:

"Guaranteed Obligations" has the meaning assigned to that term in Section 2.1.

"Payment in full", "paid in full" or any similar term means payment in full of the Guaranteed Obligations including, without limitation, all principal, interest, costs, fees and expenses (including, without limitation, legal fees and expenses) of Banks and Administrative Agent as required under the Loan Documents.

"Subsidiary Guaranty" means this Subsidiary Guaranty.

1.2 Interpretation.

(a) References to "Sections" shall be to Sections of this Subsidiary Guaranty unless otherwise specifically provided. All accounting terms not otherwise defined herein shall have the meanings assigned to them under generally accepted accounting principles.

(b) In the event of any conflict or inconsistency between the terms, conditions and provisions of this Subsidiary Guaranty and the terms, conditions and provisions of the Credit Agreement, the terms, conditions and provisions of this Subsidiary Guaranty shall prevail.

SECTION 2. THE GUARANTY

2.1 Guaranty of the Guaranteed Obligations. Subsidiary Guarantors hereby irrevocably and unconditionally guaranty, as primary obligor and not merely as surety, the due and punctual payment in full of all Guaranteed Obligations when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss. 362(a)). The term "Guaranteed Obligations" is used herein in its most comprehensive sense and includes:

(a) any and all Obligations of Borrower now or hereafter made, incurred or created, whether absolute or contingent, liquidated or unliquidated, whether due or not due, and however arising under or in connection with the Credit Agreement and the other Loan Documents, including those arising under successive borrowing transactions under the Credit Agreement which shall either continue the Obligations of Borrower or from time to time renew them after they have been satisfied; and

(b) those expenses set forth in Section 2.9 hereof.

2.2 Limitation on Amount Guaranteed; Contribution by Subsidiary Guarantors.

(a) Anything contained in this Subsidiary Guaranty to the contrary notwithstanding, if any Fraudulent Transfer Law (as hereinafter defined) is determined by a court of competent jurisdiction to be applicable to the obligations of the Subsidiary Guarantors under this Subsidiary Guaranty, such obligations of the Subsidiary Guarantors hereunder shall be limited to a maximum aggregate amount equal to the largest amount that would not render their obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of Title 11 of the United States Code or any applicable provisions of comparable state law (collectively, the "Fraudulent Transfer Laws"), in each case after giving effect to all other liabilities of the Subsidiary Guarantors, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws (specifically excluding, however, any liabilities of the Subsidiary Guarantors (x) in respect of intercompany indebtedness to Borrower or other affiliates of Borrower to the extent that such indebtedness would be discharged in an amount equal to the amount paid by the Subsidiary Guarantors hereunder and (y) under any guaranty of Subordinated Indebtedness which guaranty contains a limitation as to maximum amount similar to that set forth in this Section 2.2(a), pursuant to which the liability of the Subsidiary Guarantors hereunder is included in the liabilities taken into account in determining such maximum amount) and after giving effect as assets to the value (as determined under the applicable provisions of the Fraudulent Transfer Laws) of any rights to subrogation, reimbursement, indemnification or contribution of the Subsidiary Guarantors pursuant to applicable law or pursuant to the terms of any agreement (including without limitation any such right of contribution under a Related Guaranty (as hereinafter defined) as contemplated by Section 2.2(b)).

(b) Subsidiary Guarantors under this Subsidiary Guaranty, and each guarantor under other guaranties, if any, relating to the Credit Agreement (the "Related Guaranties") which contain a contribution provision similar to that set forth in this Section 2.2(b), together desire to allocate among themselves (collectively, the "Contributing Guarantors"), in a fair and equitable manner, their obligations arising under this Subsidiary Guaranty and the Related Guaranties. Accordingly, in the event any payment or distribution is made on any date by the Subsidiary Guarantors under this Subsidiary Guaranty or a guarantor under a Related Guaranty (a "Funding Guarantor") that exceeds its Fair Share (as defined below) as of such date, that Funding Guarantor shall be entitled to a contribution from each of the other Contributing Guarantors in the amount of such other Contributing Guarantor's Fair Share Shortfall (as defined below) as of such date, with the result that all such contributions will cause each Contributing Guarantor's Aggregate Payments (as defined below) to equal its Fair Share as of such date. "Fair Share" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the ratio of (x) the Adjusted Maximum Amount (as defined below) with respect to such Contributing Guarantor to (y) the aggregate of the Adjusted Maximum Amounts with respect to all Contributing Guarantors, multiplied by (ii) the aggregate amount paid or distributed on or before such date by all Funding Guarantors under this Subsidiary Guaranty and the Related Guaranties in respect of the obligations guaranteed. "Fair Share Shortfall" means, with respect to a Contributing Guarantor as of any date of determination, the excess, if any, of the Fair Share of such Contributing Guarantor over the Aggregate Payments of such Contributing Guarantor. "Adjusted Maximum Amount" means, with respect to a Contributing Guarantor as of any date of determination, the maximum aggregate amount of the obligations of such Contributing Guarantor under this Subsidiary Guaranty and the Related Guaranties, determined as of such date in accordance with Section 2.2(a) or, if applicable, a similar provision contained in a Related Guaranty; provided that, solely for purposes of calculating the "Adjusted Maximum Amount" with respect to any Contributing Guarantor for purposes of this Section 2.2(b), any assets or liabilities of such Contributing Guarantor arising by virtue of any rights to subrogation, reimbursement or indemnification or any rights to or obligations of contribution hereunder or under any similar provision contained in a Related Guaranty shall not be considered as assets or liabilities of such Contributing Guarantor. "Aggregate Payments" means, with respect to a Contributing Guarantor as of any date of determination, an amount equal to (i) the aggregate amount of all payments and distributions made on or before such date by such Contributing Guarantor in respect of this Subsidiary Guaranty and the Related Guaranties (including, without limitation, in respect of this Section 2.2(b) or any similar provision contained in a Related Guaranty) minus (ii) the aggregate amount of all payments received on or before such date by such Contributing Guarantor from the other Contributing Guarantors as contributions under this Section 2.2(b) or any similar provision contained in a Related Guaranty. The amounts payable as contributions hereunder and under similar provisions in the Related Guaranties shall be determined as of the date on which the related payment or distribution is made by the applicable Funding Guarantor. The allocation among Contributing Guarantors of their obligations as set forth in this Section 2.2(b) or any similar provision contained in a Related Guaranty shall not be construed in any way to limit the liability of any Contributing Guarantor hereunder or under a Related Guaranty. Each Contributing Guarantor under a Related Guaranty is a third party beneficiary to the contribution agreement set forth in this Section 2.2(b).

2.3 Liability of Subsidiary Guarantors. Subsidiary Guarantors agree that their obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit. In furtherance of the foregoing and without limiting the generality thereof, the

Subsidiary Guarantors agree as follows:

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(a) This Subsidiary Guaranty is a guaranty of payment when due and not of collectibility.

(b) Administrative Agent may enforce this Subsidiary Guaranty upon the occurrence of an Event of Default under the Credit Agreement notwithstanding the existence of any dispute between Banks and Borrower with respect to the existence of such Event of Default.

(c) The obligations of the Subsidiary Guarantors hereunder are independent of the obligations of Borrower under the Loan Documents and the obligations of any other guarantor of the obligations of Borrower under the Loan Documents, and a separate action or actions may be brought and prosecuted against the Subsidiary Guarantors whether or not any action is brought against Borrower or any of such other guarantors and whether or not Borrower is joined in any such action or actions.

(d) Subsidiary Guarantors payment of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify or abridge the Subsidiary Guarantors' liability for any portion of the Guaranteed Obligations which has not been paid. Without limiting the generality of the foregoing, if Administrative Agent is awarded a judgment in any suit brought to enforce the Subsidiary Guarantors covenant to pay a portion of the Guaranteed Obligations, such judgment shall not be deemed to release the Subsidiary Guarantors from their covenant to pay the portion of the Guaranteed Obligations that is not the subject of such suit.

(e) Administrative Agent or any Bank, upon such terms as it deems appropriate, without notice or demand and without affecting the validity or enforceability of this Subsidiary Guaranty or giving rise to any reduction, limitation, impairment, discharge or termination of the Subsidiary Guarantors' liability hereunder, from time to time may (i) renew, extend, accelerate, increase the rate of interest on, or otherwise change the time, place, manner or terms of payment of the Guaranteed Obligations, (ii) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Guaranteed Obligations or any agreement relating thereto and/or subordinate the payment of the same to the payment of any other obligations; (iii) request and accept other guaranties of the Guaranteed Obligations and take and hold security for the payment of this Subsidiary Guaranty or the Guaranteed Obligations; (iv) release, surrender, exchange, substitute, compromise, settle, rescind, waive, alter, subordinate or modify, with or without consideration, any security for payment of the Guaranteed Obligations, any other guaranties of the Guaranteed Obligations, or any other obligation of any Person with respect to the Guaranteed Obligations; (v) enforce and apply any security now or hereafter held by or for the benefit of Administrative Agent or any Bank in respect of this Subsidiary Guaranty or the Guaranteed Obligations and direct the order or manner of sale thereof, or exercise any other right or remedy that Administrative Agent or Banks, or any of them, may have against any such security, as Administrative Agent in its discretion may determine consistent with the Credit Agreement and any applicable security agreement, including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and even though such action operates to impair or extinguish any right of reimbursement or subrogation or other right or remedy of the Subsidiary Guarantors against Borrower or any security for the Guaranteed Obligations; and (vi) exercise any other rights available to it under the Loan Documents.

(f) This Subsidiary Guaranty and the obligations of the Subsidiary

Guarantors hereunder shall be valid and enforceable and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason (other than indefeasible payment in full of the Guaranteed Obligations, the termination of the Commitments, and the expiration or cancellation of all Letters of Credit), including without limitation the occurrence of any of the following, whether or not

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the Subsidiary Guarantors shall have had notice or knowledge of any of them: (i) any failure or omission to assert or enforce or agreement or election not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy (whether arising under the Loan Documents, at law, in equity or otherwise) with respect to the Guaranteed Obligations or any agreement relating thereto, or with respect to any other guaranty of or security for the payment of the Guaranteed Obligations; (ii) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including without limitation provisions relating to events of default) of the Credit Agreement, any of the other Loan Documents or any agreement or instrument executed pursuant thereto, or of any other guaranty or security for the Guaranteed Obligations, in each case whether or not in accordance with the terms of the Credit Agreement or such Loan Document or any agreement relating to such other guaranty or security; (iii) the Guaranteed Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect; (iv) the application of payments received from any source (other than payments received pursuant to the other Loan Documents or from the proceeds of any security for the Guaranteed Obligations, except to the extent such security also serves as collateral for indebtedness other than the Guaranteed Obligations) to the payment of indebtedness other than the Guaranteed Obligations, even though Administrative Agent or Banks, or any of them, might have elected to apply such payment to any part or all of the Guaranteed Obligations; (v) any Bank's or Administrative Agent's consent to the change, reorganization or termination of the corporate structure or existence of Borrower or any of its Subsidiaries and to any corresponding restructuring of the Guaranteed Obligations; (vi) any failure to perfect or continue perfection of a security interest in any collateral which secures any of the Guaranteed Obligations; (vii) any defenses, set-offs or counterclaims which Borrower may allege or assert against Administrative Agent or any Bank in respect of the Guaranteed Obligations, including but not limited to failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury; and (viii) 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 Subsidiary Guarantors as an obligor in respect of the Guaranteed Obligations.

2.4 Waivers by Subsidiary Guarantors. Subsidiary Guarantors hereby waive, for the benefit of Banks and Administrative Agent:

(a) any right to require Administrative Agent or Banks, as a condition of payment or performance by the Subsidiary Guarantors, to (i) proceed against Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (ii) proceed against or exhaust any security held from Borrower, any other guarantor of the Guaranteed Obligations or any other Person, (iii) proceed against or have resort to any balance of any deposit account or credit on the books of Administrative Agent or any Bank in favor of Borrower or any other Person, or (iv) pursue any other remedy in the power of Administrative Agent or any Bank whatsoever;

(b) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of Borrower including, without limitation, any defense based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of Borrower from any cause other than indefeasible payment in full of the Guaranteed Obligations,

the termination of the Commitments, and the expiration or cancellation of all Letters of Credit;

(c) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

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(d) any defense based upon Administrative Agent's or any Bank's errors or omissions in the administration of the Guaranteed Obligations, except behavior which amounts to bad faith;

(e) (i) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms of this Subsidiary Guaranty and any legal or equitable discharge of the Subsidiary Guarantors' obligations hereunder, (ii) the benefit of any statute of limitations affecting the Subsidiary Guarantors' liability hereunder or the enforcement hereof, (iii) any rights to set-offs, recoupments and counterclaims, and (iv) promptness, diligence and any requirement that Administrative Agent or any Bank protect, secure, perfect or insure any security interest or lien or any property subject thereto;

(f) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, including acceptance of this Subsidiary Guaranty, notices of default under the Credit Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto, notices of any extension of credit to Borrower and notices of any of the matters referred to in Section 2.3 and any right to consent to any thereof; and

(g) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms of this Subsidiary Guaranty.

2.5 Payment by Subsidiary Guarantors; Application of Payments.

Subsidiary Guarantors hereby agree, in furtherance of the foregoing and not in limitation of any other right which Administrative Agent or any other Person may have at law or in equity against the Subsidiary Guarantors by virtue hereof, upon the failure of Borrower to pay any of the Guaranteed Obligations when and as the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss. 362(a)), the Subsidiary Guarantors will forthwith pay, or cause to be paid, in cash, to Administrative Agent for the ratable benefit of Banks, an amount equal to the sum of the unpaid principal amount of all Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such Guaranteed Obligations (including, without limitation, interest which, but for the filing of a petition in bankruptcy with respect to Borrower, would have accrued on such Guaranteed Obligations, whether or not a claim is allowed against Borrower for such interest in any such bankruptcy proceeding) and all other Guaranteed Obligations then owed to Administrative Agent and/or Banks as aforesaid. All such payments shall be applied promptly from time to time by Administrative Agent:

First, to the payment of the costs and expenses of any collection or other realization under this Subsidiary Guaranty, including reasonable compensation to Administrative Agent and its agents and counsel, and all expenses, liabilities and Loans made or incurred by Administrative Agent in connection therewith;

Second, to the payment of all other Guaranteed Obligations; and

Third, after payment in full of all Guaranteed Obligations, to the

payment to the Subsidiary Guarantors, or their successors or assigns, or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such payments.

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2.6 Subrogation. Until the Guaranteed Obligations shall have been indefeasibly paid in full and the Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement, the Subsidiary Guarantors shall withhold exercise of (a) any right of subrogation, (b) any right of contribution the Subsidiary Guarantors may have against any other guarantor of the Guaranteed Obligations, (c) any right to enforce any remedy which Administrative Agent or any Bank now has or may hereafter have against Borrower or (d) any benefit of, and any right to participate in, any security now or hereafter held by Administrative Agent or any Bank. Subsidiary Guarantors further agree that, to the extent the waiver of its rights of subrogation and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation the Subsidiary Guarantors may have against Borrower or against any collateral or security, and any rights of contribution the Subsidiary Guarantors may have against any other guarantor, shall be junior and subordinate to any rights Administrative Agent or Banks may have against Borrower, to all right, title and interest Administrative Agent or Banks may have in any such collateral or security, and to any right Administrative Agent or Banks may have against such other guarantor. Administrative Agent, on behalf of Banks, may use, sell or dispose of any item of collateral or security as it sees fit without regard to any subrogation rights the Subsidiary Guarantors may have, and upon any such disposition or sale any rights of subrogation the Subsidiary Guarantors may have shall terminate. If any amount shall be paid to the Subsidiary Guarantors on account of such subrogation rights at any time when all Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for Administrative Agent on behalf of Banks and shall forthwith be paid over to Administrative Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms of the Credit Agreement or any applicable security agreement.

2.7 Subordination of Other Obligations. Any indebtedness of Borrower now or hereafter held by the Subsidiary Guarantors is hereby subordinated in right of payment to the Guaranteed Obligations, and any such indebtedness of Borrower to the Subsidiary Guarantors collected or received by the Subsidiary Guarantors after an Event of Default has occurred and is continuing shall be held in trust for Administrative Agent on behalf of Banks and shall forthwith be paid over to Administrative Agent for the benefit of Banks to be credited and applied against the Guaranteed Obligations but without affecting, impairing or limiting in any manner the liability of the Subsidiary Guarantors under any other provision of this Subsidiary Guaranty.

2.8 Real Property Security. Subsidiary Guarantors agree that, if all or a portion of the Guaranteed Obligations are at any time secured by a deed of trust or mortgage covering interests in real property, Administrative Agent or its designee, in its sole discretion, without notice or demand and without affecting the liability of the Subsidiary Guarantors under this Subsidiary Guaranty, may foreclose, pursuant to the terms of the Loan Documents or otherwise, on such deed of trust or mortgage and the interests in real property secured thereby by nonjudicial or other sale. The Subsidiary Guarantors understand that the exercise by Banks or Administrative Agent, or any of them, of certain rights and remedies contained in the Credit Agreement and such deed of trust or mortgage may affect or eliminate Subsidiary Guarantors' right of subrogation against Borrower and that the Subsidiary Guarantors may therefore incur a partially or totally nonreimbursable liability hereunder. Nevertheless, the Subsidiary Guarantors hereby authorize and empower Administrative Agent and any Bank to exercise, in its sole discretion, any rights and remedies, or any

combination thereof, which may then be available, since it is the intent and purpose of the Subsidiary Guarantors that the obligations hereunder shall be absolute, independent and unconditional under any and all circumstances. Notwithstanding any foreclosure of the lien of such deed of trust or mortgage with respect to any or all real or personal property secured thereby, whether by the exercise of the power of sale contained therein, by an action

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for judicial foreclosure or by an acceptance of a deed in lieu of foreclosure, the Subsidiary Guarantors shall remain bound under this Subsidiary Guaranty, including its obligation to pay any deficiency after a nonjudicial foreclosure.

2.9 Expenses. Subsidiary Guarantors agree to pay, or cause to be paid, and to save Administrative Agent and Banks harmless against liability for, any and all costs and expenses (including fees and disbursements of counsel and the allocated cost of inhouse counsel for the Administrative Agent) incurred or expended by Administrative Agent or any Bank in connection with the enforcement of or preservation of any rights under this Subsidiary Guaranty.

2.10 Continuing Guaranty; Termination of Subsidiary Guaranty. This Subsidiary Guaranty is a continuing guaranty and shall remain in effect until all of the Guaranteed Obligations shall have been indefeasibly paid in full, the Commitments shall have terminated and all Letters of Credit shall have expired or been cancelled or cash collateralized pursuant to the terms of the Credit Agreement. Anything contained in this Subsidiary Guaranty to the contrary notwithstanding, this Subsidiary Guaranty shall not apply to Guaranteed Obligations created after actual receipt by Administrative Agent of written notice (delivered in accordance with Section 5.2) from the Subsidiary Guarantors of its revocation as to future transactions; provided, however, that any such revocation shall not affect the Subsidiary Guarantors' liability for any Guaranteed Obligations outstanding at the time of receipt of such notice or any extension or renewal of such Guaranteed Obligations.

2.11 Authority of the Subsidiary Guarantors or Borrower. It is not necessary for Banks or Administrative Agent to inquire into the capacity or powers of the Subsidiary Guarantors or Borrower or the officers, directors or any agents acting or purporting to act on behalf of any of them.

2.12 Financial Condition of Borrower. Any Loans may be granted to Borrower or continued from time to time without notice to or authorization from the Subsidiary Guarantors regardless of the financial or other condition of Borrower at the time of any such grant or continuation. Banks and Administrative Agent shall have no obligation to disclose or discuss with the Subsidiary Guarantors their assessment, or the Subsidiary Guarantors' assessments, of the financial condition of Borrower. Subsidiary Guarantors have adequate means to obtain information from Borrower on a continuing basis concerning the financial condition of Borrower and its ability to perform its obligations under the Credit Agreement, and the Subsidiary Guarantors assume the responsibility for being and keeping informed of the financial condition of Borrower and of all circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations. Subsidiary Guarantors hereby waive and relinquish any duty on the part of Administrative Agent or any Bank to disclose any matter, fact or thing relating to the business, operations or conditions of Borrower now known or hereafter known by Administrative Agent or any Bank.

2.13 Rights Cumulative. The rights, powers and remedies given to Banks and Administrative Agent by this Subsidiary Guaranty are cumulative and shall be in addition to and independent of all rights, powers and remedies given to Banks and Administrative Agent by virtue of any statute or rule of law or in any of the other Loan Documents or any agreement between the Subsidiary Guarantors and Banks and/or Administrative Agent or between Borrower and Banks and/or Administrative Agent. Any forbearance or failure to exercise, and any delay by any Bank or Administrative Agent in exercising, any right, power or remedy

hereunder shall not impair any such right, power or remedy or be construed to be a waiver thereof, nor shall it preclude the further exercise of any such right, power or remedy.

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2.14 Bankruptcy; Post-Petition Interest; Reinstatement of Subsidiary Guaranty.

(a) The obligations of the Subsidiary Guarantors under this Subsidiary Guaranty shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Borrower or by any defense which Borrower may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.

(b) Subsidiary Guarantors acknowledge and agree that any interest on any portion of the Guaranteed Obligations which accrues after the commencement of any proceeding referred to in clause (a) above (or, if interest on any portion of the Guaranteed Obligations ceases to accrue by operation of law by reason of the commencement of said proceeding, such interest as would have accrued on such portion of the Guaranteed Obligations if said proceedings had not been commenced) shall be included in the Guaranteed Obligations because it is the intention of the Subsidiary Guarantors and Administrative Agent that the Guaranteed Obligations which are guaranteed by the Subsidiary Guarantors pursuant to this Subsidiary Guaranty should be determined without regard to any rule of law or order which may relieve Borrower of any portion of such Guaranteed Obligations. Subsidiary Guarantors will permit any trustee in bankruptcy, receiver, debtor in possession, assignee for the benefit of creditors or similar person to pay Administrative Agent, or allow the claim of Administrative Agent in respect of, any such interest accruing after the date on which such proceeding is commenced.

(c) In the event that all or any portion of the Guaranteed Obligations are paid by Borrower, the obligations of the Subsidiary Guarantors hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from Administrative Agent or any Bank as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes under this Subsidiary Guaranty.

2.15 Set Off. In addition to any other rights any Bank or Administrative Agent may have under law or in equity, if any amount shall at any time be due and owing by the Subsidiary Guarantors to any Bank or Administrative Agent under this Subsidiary Guaranty, such Bank or Administrative Agent is authorized at any time or from time to time, without notice (any such notice being hereby expressly waived), to set off and to appropriate and to apply any and all deposits (general or special, including but not limited to indebtedness evidenced by certificates of deposit, whether matured or unmatured) and any other indebtedness of any Bank or Administrative Agent owing to the Subsidiary Guarantors and any other property of the Subsidiary Guarantors held by any Bank or Administrative Agent to or for the credit or the account of the Subsidiary Guarantors against and on account of the Guaranteed Obligations and liabilities of the Subsidiary Guarantors to any Bank or Administrative Agent under this Subsidiary Guaranty.

2.16 Discharge of Subsidiary Guaranty Upon Sale of the Subsidiary Guarantors. If all of the stock of the Subsidiary Guarantors or any of their successors in interest under this Subsidiary Guaranty shall be sold or otherwise disposed of (including by merger or consolidation) in an asset sale not prohibited by the Credit Agreement or otherwise consented to by Requisite Banks, the Subsidiary Guaranty of the Subsidiary Guarantors or such successor in

interest, as the case may be, hereunder shall automatically be discharged and released without any further action by Administrative Agent or any Bank or any other Person effective as of the time of such asset sale. Notwithstanding the foregoing, so long as the Subsidiary Guarantors or their successor shall remain a Subsidiary of the Borrower and any Guaranteed Obligations remain outstanding, such the Subsidiary Guarantors or successor shall enter into a new Subsidiary Guaranty with the Administrative Agent for the benefit of the Banks.

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SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce Banks and Administrative Agent to accept this Subsidiary Guaranty and to enter into the Credit Agreement and to make the Loans thereunder, the Subsidiary Guarantors hereby represent and warrant to Banks that the following statements are true and correct:

3.1 Corporate Existence. Each of the Subsidiary Guarantors is duly organized, validly existing and in good standing under the laws of the state of its incorporation, has the corporate power to own its assets and to transact the business in which it is now engaged and is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except for failures to be so qualified, authorized or licensed that would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of each respective Subsidiary Guarantor.

3.2 Corporate Power; Authorization; Enforceable Obligations. Each of the Subsidiary Guarantors has the corporate power, authority and legal right to execute, deliver and perform this Subsidiary Guaranty and all obligations required hereunder and has taken all necessary corporate action to authorize its Subsidiary Guaranty hereunder on the terms and conditions hereof and its execution, delivery and performance of this Subsidiary Guaranty and all obligations required hereunder. No consent of any other Person including, without limitation, stockholders and creditors of each of the Subsidiary Guarantors (other than those which have been obtained), and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by each of the Subsidiary Guarantors in connection with this Subsidiary Guaranty or the execution, delivery, performance, validity or enforceability of this Subsidiary Guaranty and all obligations required hereunder except such consents licenses, permits, approvals or authorizations which, if not obtained, either (i) would not adversely affect the ability of each of the Subsidiary Guarantors to perform the transactions contemplated by this Subsidiary Guaranty, or (ii) would not have a Material Adverse Effect. This Subsidiary Guaranty has been, and each instrument or document required hereunder will be, executed and delivered by a duly authorized officer of each of the Subsidiary Guarantors, and this Subsidiary Guaranty constitutes, and each instrument or document required hereunder when executed and delivered hereunder will constitute, the legally valid and binding obligation of each of the Subsidiary Guarantors, enforceable against each of the Subsidiary Guarantors in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws or equitable principles relating to or limiting creditors' rights generally.

3.3 No Legal Bar to this Subsidiary Guaranty. The execution, delivery and performance of this Subsidiary Guaranty and the documents or instruments required hereunder, and the use of the proceeds of the borrowings, and the issuance of the Letters of Credit will not violate any provision of any existing law or regulation binding on the Subsidiary Guarantors, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Subsidiary Guarantors, or the certificate of incorporation or bylaws of each

of the Subsidiary Guarantors or any securities issued by each of the Subsidiary Guarantors, or any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Subsidiary Guarantors are a party or by which the Subsidiary Guarantors or any of their assets may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of the Subsidiary Guarantors and will not result in, or require, the creation or imposition of any Lien on any of their property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking.

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SECTION 4. AFFIRMATIVE COVENANTS.

So long as any Loan shall remain unpaid or any Bank shall have any Commitment hereunder and until the expiration, the cancellation and the payment in full or cash collateralization of all Letters of Credit, the Subsidiary Guarantors covenant and agree, unless Requisite Banks shall otherwise consent in writing:

4.1 Corporate Existence, Etc. Except as permitted under Section 5.1 of the Credit Agreement, the Subsidiary Guarantors shall at all times preserve and keep in full force and effect its corporate existence and all rights and franchises material to its business.

4.2 Compliance with Laws, Etc. Subsidiary Guarantors shall perform and promptly comply with the requirements of all applicable laws, rules, regulations and orders other than those with which the failure to comply would not have a Material Adverse Effect, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges imposed upon it or upon any of its properties or assets or in respect of any of its franchises, businesses, income or property in accordance with Section 6.8 of the Credit Agreement.

4.3 Books and Records. Subsidiary Guarantors shall keep and maintain books of record and account with respect to their operations in accordance with generally accepted accounting principles and shall permit Administrative Agent or any Bank and their respective officers, employees and authorized agents, to the extent Administrative Agent in good faith deems necessary for the proper administration of this Subsidiary Guaranty, to examine, copy and make excerpts from the books and records of the Subsidiary Guarantors and their Subsidiaries and to inspect the properties of the Subsidiary Guarantors and their Subsidiaries, both real and personal, at such reasonable times as Administrative Agent may request.

SECTION 5. MISCELLANEOUS

5.1 Survival of Warranties. All agreements, representations and warranties made herein shall survive the execution and delivery of this Subsidiary Guaranty.

5.2 Notices. Any communications between Administrative Agent and the Subsidiary Guarantors and any notices or requests provided herein to be given may be given by mailing the same, postage prepaid, or by telex, facsimile transmission or cable to each such party at 222 West Las Colinas Boulevard, Suite 1500, Irving, Texas 75039, facsimile number (972) 443-6800. Any notice, request or demand to or upon Administrative Agent or Banks or the Subsidiary Guarantors shall not be effective until received.

5.3 Severability. In case any provision in or obligation under this Subsidiary Guaranty shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other

jurisdiction, shall not in any way be affected or impaired thereby.

5.4 Amendments and Waivers. No amendment, modification, termination or waiver of any provision of this Subsidiary Guaranty, or consent to any departure by the Subsidiary Guarantors therefrom, shall in any event be effective without the written concurrence of Requisite Banks under the Credit Agreement; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all Banks change the number of Banks required to take any action hereunder. Any waiver or

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consent shall be effective only in the specific instance and for the specific purpose for which it was given.

5.5 Headings. Section and Section headings in this Subsidiary Guaranty are included herein for convenience of reference only and shall not constitute a part of this Subsidiary Guaranty for any other purpose or be given any substantive effect.

5.6 APPLICABLE LAW. THIS SUBSIDIARY GUARANTY AND THE RIGHTS AND OBLIGATIONS OF SUBSIDIARY GUARANTORS, ADMINISTRATIVE AGENT AND BANKS HEREUNDER AND ALL OTHER ASPECTS HEREOF SHALL BE DEEMED TO BE MADE UNDER, SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE.

5.7 Successors and Assigns. This Subsidiary Guaranty is a continuing guaranty and shall be binding upon the Subsidiary Guarantors and their successors and assigns. This Subsidiary Guaranty shall inure to the benefit of Banks, Administrative Agent and their respective successors and assigns. Subsidiary Guarantors shall not assign this Subsidiary Guaranty or any of the rights or obligations of the Subsidiary Guarantors hereunder without the prior written consent of all Banks. Any Bank may, without notice or consent, assign its interest in this Subsidiary Guaranty in whole or in part in conjunction with the assignment of its interest in the Guaranteed Obligations. The terms and provisions of this Subsidiary Guaranty shall inure to the benefit of any assignee or transferee permitted under the Credit Agreement, and in the event of such transfer or assignment the rights and privileges herein conferred upon Banks and Administrative Agent shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof.

5.8 Consent to Jurisdiction; Waiver of Immunities. Subsidiary Guarantors hereby irrevocably submit to the jurisdiction of any California state or Federal court sitting in Los Angeles, California, in any action or proceeding arising out of or relating to this Subsidiary Guaranty, and the Subsidiary Guarantors hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such California state or Federal court. Subsidiary Guarantors hereby irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding. Subsidiary Guarantors hereby irrevocably appoint Borrower as its agent to receive, on behalf of the Subsidiary Guarantors and their property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mail or by delivering a copy of such process to the Subsidiary Guarantors in care of the agent named above, and the Subsidiary Guarantors hereby irrevocably authorize and direct such agent to accept such service on its behalf. As an alternative method of service, the Subsidiary Guarantors also irrevocably consent to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the Subsidiary Guarantors at their addresses specified in Section 5.2 in accordance with the procedures for service by mail under California. Subsidiary Guarantors agree 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 Section 5.8 shall affect the right of any Bank

or Administrative Agent to serve legal process in any other manner permitted by law or affect the right of any Bank or Administrative Agent to bring any action or proceeding against the Subsidiary Guarantors or their property in the courts of any other jurisdiction.

5.9 Waiver of Trial by Jury. SUBSIDIARY GUARANTORS AND, BY THEIR ACCEPTANCE OF THE BENEFITS HEREOF, ADMINISTRATIVE AGENT EACH HEREBY

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AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS SUBSIDIARY GUARANTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Subsidiary Guarantors and, by their acceptance of the benefits hereof, Administrative Agent each (i) acknowledges that this waiver is a material inducement for the Subsidiary Guarantors and Administrative Agent to enter into a business relationship, that the Subsidiary Guarantors and Administrative Agent have already relied on this waiver in entering into this Subsidiary Guaranty or accepting the benefits thereof, as the case may be, and that each will continue to rely on this waiver in their related future dealings and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS SUBSIDIARY GUARANTY. In the event of litigation, this Subsidiary Guaranty may be filed as a written consent to a trial by the court.

5.10 No Other Writing. This writing is intended by Subsidiary Guarantors and Administrative Agent as the final expression of this Subsidiary Guaranty and is also intended as a complete and exclusive statement of the terms of their agreement with respect to the matters covered hereby. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Subsidiary Guaranty. There are no conditions to the full effectiveness of this Subsidiary Guaranty.

5.11 Further Assurances. At any time or from time to time, upon the request of Administrative Agent or Requisite, Subsidiary Guarantors shall execute and deliver such further documents and do such other acts and things as Administrative Agent or Banks may reasonably request in order to effect fully the purposes of this Subsidiary Guaranty.

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IN WITNESS WHEREOF, Subsidiary Guarantors have executed this Subsidiary Guaranty by their duly authorized officers as of the date first above written.

FLOWSERVE FCD CORPORATION,
a Delaware corporation

By: /s/ JOHN M. NANOS

John M. Nanos
Vice President

FLOWSERVE FSD CORPORATION,
a Delaware corporation

By: /s/ JOHN M. NANOS

John M. Nanos
Vice President

FLOWSERVE RED CORPORATION,
a Delaware corporation

By: /s/ JOHN M. NANOS

John M. Nanos
Vice President

FLOWSERVE INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ JOHN M. NANOS

John M. Nanos
Vice President

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Accepted:

BANK OF AMERICA, N.A., AS ADMINISTRATIVE
AGENT

By: /s/ THERESE A. FONTAINE

Name: Therese A. Fontaine

Title: Principal

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AMENDMENT NO. 2 TO
FLOWSERVE CORPORATION
1997 STOCK OPTION PLAN

Section 13(a) is hereby amended to add immediately after subsection (ii) the following:

"(iii) if such amendment would reprice, replace or otherwise effectively lower, through a form of option cancellation and regranting or otherwise, the exercise price of a previously granted option award."

The remainder of the Plan shall remain unchanged and in full force and effect.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary & General Counsel

AMENDMENT NO. 1 TO
FLOWSERVE CORPORATION
1999 STOCK OPTION PLAN

Section 13(a) is hereby amended to add immediately after subsection (ii) the following:

"(iii) if such amendment would reprice, replace or otherwise effectively lower, through a form of option cancellation and regranting or otherwise, the exercise price of a previously granted option award."

The remainder of the Plan shall remain unchanged and in full force and effect.

FLOWSERVE CORPORATION

By: /s/ Ronald F. Shuff

Ronald F. Shuff

Vice President, Secretary & General Counsel

AMENDED EMPLOYMENT AGREEMENT

THIS AMENDED EMPLOYMENT AGREEMENT ("Amended Agreement") is entered into this 24th day of November, 1999, by and between FLOWSERVE CORPORATION ("Company") and Bernard G. Rethore ("Executive").

BACKGROUND

A. The Executive currently serves as Chief Executive Officer of the Company and as Chairman of the Company's Board of Directors pursuant to an Employment Agreement entered into August 1, 1997, effective July 22, 1997 ("Agreement").

B. The Executive and the Company wish to modify the Agreement as provided herein.

In consideration of the premises and other valuable consideration, the receipt of which is hereby acknowledged, the Company and the Executive agree that the Agreement shall be amended and restated as provided herein, effective with the execution of this Amended Agreement.

AMENDED AGREEMENT

1. General Agreement. The Company agrees to continue to employ the Executive, and the Executive agrees to continue employment with the Company, as provided in this Amended Agreement, for the period beginning on the date of execution of this Amended Agreement and ending July 21, 2003.

2. Definitions. For purposes of this Amended Agreement, the following terms, when capitalized, shall have the meanings specified below:

(a) "Accrued Compensation" means the sum of (i) the Executive's annual base salary through the date his employment terminates to the extent not previously paid and (ii) the Executive's Historical Bonus multiplied by a fraction, the numerator of which is the number of complete months in the Fiscal Year of termination that precede the Executive's termination and the denominator of which is twelve.

(b) "Average Percentage Adjustment" has the meaning specified in Paragraph 6(b).

(c) "Board" means the Company's Board of Directors.

(d) "Board Chairman" means Chairman of the Company's Board of Directors

(e) "Cause" means (i) the Executive's continuing substantial failure to perform his duties for the Company (other than as a result of incapacity due to mental or physical

illness) after a written demand is delivered to the Executive by the Board; (ii) the Executive's Wilful engaging in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company; (iii) the Executive's conviction of a felony or his plea of guilty or nolo contendere to a felony, or (iv) the Executive's Wilful and material breach of the confidentiality or non-competition provisions of this Amended Agreement. "Cause" shall be determined as

provided in Paragraph 7(d).

(f) "Contract Year" means the period beginning August 1, 2000, and ending July 21, 2001, and the 12 consecutive month periods beginning July 22, 2001, and July 22, 2002.

(g) "Disability" and "Disabled" refer to the Executive's failure to perform his duties with the Company on a full-time basis for 180 consecutive days, if an independent physician selected by the Company or its insurers and acceptable to the Executive (or, in the case of Executive's incapacity, his legal representative) finds that such failure has resulted from the Executive's inability to perform such duties because of his physical or mental incapacity.

(h) "Effective Date" means July 22, 1997, the effective date of the original Agreement.

(i) "Employment Term" means the period beginning on the Effective Date and ending on July 21, 2003.

(j) "Fiscal Year" means the Company's Fiscal Year.

(k) "First Employment Period" means the period beginning on the Effective Date and ending on July 31, 2000.

(l) "Good Reason" means, during the First Employment Period, (i) the Company's removal of the Executive from his position as Board Chairman or Chief Executive Officer other than as set forth in Paragraph 3 hereof, (ii) the Company's assignment of duties to the Executive that are materially inconsistent with his position as Board Chairman or Chief Executive Officer, or (iii) the Company's material failure to comply with any provision of this Amended Agreement.

(m) "Historical Bonus" means, for the Fiscal Year in which the Executive's employment terminates, the Executive's highest annual bonus for the two Fiscal Years preceding termination, reduced by any annual bonus previously paid to him for the Fiscal Year of termination.

(n) "Other Benefit" means any accrued compensation or benefit of the Executive other than Accrued Compensation that is payable on or after termination of employment

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under a plan, policy, or program of the Company. In case of the Executive's death before the end of the Employment Term, "Other Benefit" shall include a special death benefit equal to 36 months of the Executive's base salary at the rate in effect on the date of his death, which benefit shall be reduced by the death benefit payable with respect to the Executive under any life insurance program of the Company. In the case of the Executive's termination of employment on account of Disability, "Other Benefit" shall include a salary continuation payment until the sixth anniversary of the Effective Date, equal to 70% of the Executive's base salary at the time he terminated employment on account of Disability, reduced by any disability payments made to the Executive for such period from another disability plan or program of the Company or Social Security.

(o) "Second Employment Period" means the period beginning on August 1, 2000, and ending on July 21, 2003.

(p) "Welfare Benefit Plan" has the meaning given to such term by 29 U.S.C. Section 1002(1).

(q) "Wilful" means that the Executive has acted, or failed to act, in bad faith or without reasonable belief that his act or omission

was in the Company's best interest. For purposes of the preceding sentence, any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and pursuant to his belief that it is in the best interests of the Company.

3. Executive's Position and Duties During First Employment Period.

During the First Employment Period, the Executive's position and duties shall be those set out in this Paragraph. From the date of execution of this Amended Agreement through December 31, 1999, the Executive shall continue to serve as the Company's Chief Executive Officer and Board Chairman on the same terms and conditions as set forth in Paragraph 3 of the Agreement, which terms and conditions are incorporated by reference as if fully set out herein. Effective January 1, 2000, the Executive shall resign as Chief Executive Officer. From January 1, 2000, through July 31, 2000, the Executive shall serve as non-executive Board Chairman and shall be expected to perform services for the Company up to 10 days a month. He shall continue to be paid \$2,500 per month for the costs associated with temporary living and commuting to and from his permanent residence in Arizona and the Company's headquarters. Effective August 1, 2000, the Executive shall resign as non-Executive Board Chairman, at which time he shall be given the honorary title of Board Chairman Emeritus.

4. Executive's Position and Duties During Second Employment Period.

During the Second Employment Period, the Executive shall serve as a consultant to the Board and shall provide such consulting and advisory services as may be reasonably requested by the Board to the extent consistent with the Executive's other obligations. The Executive shall make himself available for consultation with the Board at times mutually agreeable to the Board and the Executive, provided

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that the Executive shall not be required to perform services at the Company's headquarters or to perform services on more than 20 days per Contract Year.

5. Executive's Compensation During First Employment Period. During the First Employment Period, the Executive shall continue to be entitled to compensation as set out in Paragraph 5 of the Agreement, which Paragraph is incorporated by reference as if fully set out herein. In addition, the Executive shall be entitled to his reasonable legal fees in negotiating this Amended Agreement.

6. Executive's Compensation During Second Employment Period. During the Second Employment Period, the Executive shall be entitled to the following compensation:

(a) BASE SALARY. The Executive's base salary shall be equal to his base salary as of July 31, 2000, subject to annual increase by the current fiscal year's Average Percentage Adjustment.

(b) AVERAGE PERCENTAGE ADJUSTMENT. The Average Percentage Adjustment is calculated by: (i) measuring the increase in base salary awarded to each of the Company's senior officers,

(ii) expressing the increase in base salary as a percentage of the prior year's base salary, and

(iii) finding the average of the percentage increases awarded to all of the Company's senior officers.

(c) BONUS. For each fiscal year, the Executive shall have an annual bonus opportunity with a minimum target bonus of no less than 75% of his base salary payable pursuant to Subparagraph (a) during such fiscal year.

(d) LONG-TERM INCENTIVE COMPENSATION PLAN. The Executive shall not be eligible to participate in any stock-based or long-term incentive compensation plan of the Company; provided, however, the Executive's service during the Employment Term shall be taken into account in determining the Executive's vested interest in stock-based awards granted on or before July 31, 2000.

(e) INCENTIVE, SAVINGS, RETIREMENT, AND WELFARE BENEFIT PLANS. Except as provided in Subparagraph (d), the Executive shall be entitled to participate in all incentive compensation, savings, retirement, and Welfare Benefit Plans in which he was a participant on July 31, 2000, on a basis at least as favorable as provided to other senior executives. If the Executive is no longer eligible to participate in a benefit plan of the Company because

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of his reduced hours of employment, the Company shall provide a benefit equivalent to the benefit to which Executive would have been entitled under such plan if he had remained a full-time employee; provided however, the Executive shall not be reimbursed for the loss of his ability to make elective deferrals under any qualified defined contribution plan of the Company.

(f) TREATMENT OF OUTSTANDING STOCK OPTIONS. The Executive shall be entitled to continue to hold, and be credited with vesting service respect to, all stock options that were outstanding on July 31, 2000.

(g) FRINGE BENEFITS. The Executive shall be entitled to reimbursement of country club initiation fees and dues and automobile expenses and other fringe benefits on a basis no less favorable than provided to other senior executives of the Company.

(h) SERVICE CREDIT AND POST-EMPLOYMENT BENEFITS. The Executive shall be given full service credit for his years of service at BW/IP, Inc. for purposes of eligibility, vesting, and benefit accrual under the employee benefit plans and programs of the Company in which he participates, provided that any benefit that the Executive accrued under a defined benefit pension plan of BW/IP, Inc. before becoming a participant in the Company defined benefit pension plan shall be offset. To the extent that the terms of a defined benefit plan do not permit compliance with the preceding sentence, the Company shall provide such benefit through a supplemental retirement benefit. Notwithstanding the foregoing, the Executive shall be entitled to a supplemental retirement benefit at least as generous as the supplemental retirement benefit that would have been provided under his agreement with BW/IP, Inc., a copy of which was attached as Appendix A to the Agreement, had such agreement remained in effect throughout the Employment Term, taking into account, among other things, the double service crediting provided thereunder.

(i) Allowance for Office Expenses. In August, 2000, and in the first month of each Contract Year beginning thereafter, the Company shall pay Executive \$36,000 as an allowance for the Executive's expenses in maintaining an office.

7. Termination of Employment.

(a) DEATH. The Executive's employment shall terminate automatically upon his death during the Employment Term.

(b) DISABILITY. If the Executive becomes Disabled during the Employment Term, the Company may notify the Executive of its intention

to terminate his employment pursuant to this Subparagraph (b). In such event, the Executive's employment shall terminate on the 30th day after the Executive receives such notice, unless he returns to substantially full-time performance of his duties within such 30-day period.

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(c) EXECUTIVE'S TERMINATION. If the Executive terminates his employment, he shall provide the Company at least 30 days' notice (which 30-day requirement may be waived by the Company) of his intent to terminate and identify his termination date. The Executive's termination date shall be the date specified in the notice provided pursuant to the preceding sentence.

(d) COMPANY'S TERMINATION FOR CAUSE. Before the Board terminates the Executive's employment for Cause, it shall provide the Executive an opportunity, after reasonable notice, to appear before the Board with counsel. To terminate the Executive for Cause, the Board must adopt a resolution terminating the Executive by affirmative vote of at least 75% of its members, after having given the Executive the opportunity to present his case to the Board. The Board's resolution must state that the Board finds in good faith that (i) the Executive is guilty of conduct constituting Cause, specifying the details of such conduct, and (ii) the Executive failed to cure such conduct within 30 days after receiving written notice from the Company detailing such conduct. The effective date of the Executive's termination for Cause shall be the date on which the Executive receives a copy of the resolution adopted by the Board or such later date specified in the resolution.

(e) COMPANY'S TERMINATION WITHOUT CAUSE. If the Company terminates the Executive's employment without Cause, it shall notify the Executive of its decision and state that the termination is without Cause. The effective date of the Executive's termination shall be the date on which he receives the Company's notice or such later date as specified in the notice.

8. Company's Obligations on Termination of Employment.

(a) DEATH. If the Executive's employment is terminated by reason of his death during the Employment Term, this Amended Agreement shall terminate without further obligations to the Executive's legal representatives under this Amended Agreement, other than for payment of Accrued Compensation and the timely payment or provision of Other Benefits. Accrued Compensation shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days after the Executive's death, and Other Benefits shall be paid pursuant to the applicable plan, program, or policy of the Company.

(b) DISABILITY. If the Executive's employment is terminated by reason of his Disability during the Employment Term, this Amended Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Compensation and the timely payment or provision of Other Benefits. Accrued Compensation shall be paid to the Executive in a lump sum in cash within 30 days after his employment terminates, and Other Benefits shall be paid pursuant to the applicable plan, program, or policy of the Company. Notwithstanding the preceding provisions, all stock-based awards that would have become vested by the end of the fiscal year in which the Executive's employment terminates on account of Disability shall become vested upon the termination of his

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employment, and any stock options or other exercisable awards shall remain exercisable as if the Executive's employment had terminated on the sixth anniversary of the Effective Date.

(c) COMPANY'S TERMINATION FOR CAUSE. If the Executive's employment is terminated for Cause, the Executive terminates his employment without Good Reason during the First Employment Term, or the Executive terminates his employment during the Second Employment Term, this Amended Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Compensation, the payment of any compensation previously deferred by the Executive pursuant to a non-qualified deferred compensation plan and not previously paid, and the timely payment of Other Benefits. Accrued Compensation shall be paid to the Executive in a lump sum in cash within 30 days after his employment terminates, and Other Benefits and deferred compensation referred to in the preceding sentence shall be paid pursuant to the applicable plan, program, or policy of the Company.

(d) COMPANY'S TERMINATION FOR REASON OTHER THAN CAUSE, DEATH, OR DISABILITY. If the Company terminates the Executive's employment for a reason other than Cause, death, or Disability, or the Executive terminates his employment for Good Reason during the First Employment Term, the Company shall continue to compensate the Executive hereunder as if he had not terminated employment throughout the Employment Term. If the Executive is no longer eligible to participate in a benefit plan of the Company because he is no longer an employee, the Company shall provide a benefit equivalent to the benefit to which Executive would have been entitled under such plan if he had remained an employee; provided however, the Executive shall not be reimbursed for the loss of his ability to make elective deferrals under any qualified defined contribution plan of the Company.

(e) NON-EXCLUSIVITY OF RIGHTS. Except as expressly provided herein, this Amended Agreement shall not prevent the Executive from continuing or future participation in any plan, program, policy, or practice of the Company according to its terms. Benefits that are vested or that the Executive is otherwise entitled to receive under any plan, policy, practice, or program of, or any agreement with, the Company at or after the termination of his employment shall be payable in accordance with such plan, policy, practice, program, or agreement, except as expressly modified by this Amended Agreement.

9. Additional Payments by the Company. If it is determined that any payment hereunder other than a payment pursuant to this Paragraph or Paragraph 10, is subject to Code Section 4999, or any interest or penalties are incurred by the Executive with respect to such excise tax on account of such payments, then the Executive shall be entitled to receive an additional payment sufficient to compensate him for any such tax, interest, or penalties and any taxes with respect to payments made pursuant to this Paragraph. The Executive shall promptly notify the Company of any notice from the Internal Revenue Service with respect to excise taxes described in this Paragraph.

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10. Termination following Change of Control. If the Executive's employment terminates during the Employment Term while a signed change of control agreement between the Company and Executive ("Change of Control Agreement") is in effect and following a change of control (as defined in the Change of Control Agreement) during the Employment Term, the Executive shall receive compensation upon such termination pursuant to the Change of Control Agreement and not pursuant to this Agreement.

11. Confidentiality.

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge, or data relating to the Company or any of its affiliated companies, and their respective businesses, that has been acquired by the Executive during his employment and that has not become public knowledge (other than by acts by the Executive or his representatives in violation of this Amended Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Board or as may otherwise be required by law or legal process or in order to enforce his rights under this Amended Agreement or as necessary to defend himself against a claim asserted directly or indirectly by the Company or its affiliates, communicate or divulge any such information, knowledge, or data that is not otherwise publicly available to anyone other than the Company and those designated by it. An asserted violation of this Paragraph shall not be a basis for deferring or withholding any amounts otherwise payable to the Executive under this Amended Agreement.

(b) In the event of a breach or threatened breach of this Paragraph, the Executive agrees that the Company shall be entitled to seek injunctive relief in a court of appropriate jurisdiction to remedy such breach or threatened breach, and the Executive acknowledges that damages would be inadequate and insufficient.

(c) The Executive's obligations under this Paragraph shall continue forever.

12. Noncompetition. The Company's obligations hereunder are contingent on the Executive signing the Noncompetition Agreement attached hereto as Appendix A.

13. Indemnification. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that he is or was a director, officer, or employee of the Company, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Board or, if greater, by the laws of the State of New York, against all cost, expense, liability, and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes, or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith. The Company agrees to continue and maintain a

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directors' and officers' liability insurance policy covering Executive to the extent the Company provides such coverage for its other executive officers.

14. Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Bernard G. Rethore
6533 E. Maverick Road
Paradise Valley, AZ 85253

If to the Company or Board:

Flowserve, Inc.
222 West Las Colinas Blvd., Suite 150
Irving, Texas 75039

Attention: Vice President, Secretary and General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

15. Severability. Each provision of this Amended Agreement shall be considered severable. If a court finds any provision to be invalid or unenforceable, the validity, enforceability, operation, and effect of the remaining provisions shall not be affected, and this Amended Agreement shall be construed in all respects as if the invalid or unenforceable provision had been omitted or limited in accordance with the court's ruling.

16. Assignability. This Amended Agreement may not be assigned by the Executive, because it is personal in nature. The Company may assign, delegate, or transfer this Amended Agreement and all of its rights and obligations hereunder to any successor in interest, any purchaser of substantially all of the Company's assets, or any entity to which the Company transfers all or substantially all of its assets before or after the term of this Amended Agreement. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Amended Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

17. Waiver of Claims. The Company shall provide the Executive with a Release of Claims in the form as attached hereto as Appendix B. The Executive agrees that the obligations of Company hereunder for periods after 1999 are contingent on the Executive signing such Release not later than 21 days after the receipt thereof and such Release becoming effective.

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18. Governing Law and Waiver. The laws of the State of New York shall govern the construction, enforceability, and interpretation of this Amended Agreement. The parties intend this Amended Agreement to supplement, but not displace, their respective rights and responsibilities under the laws of the State of New York, as amended from time to time. The failure of either party to insist upon performance of any provision of this Amended Agreement or to pursue his or its rights hereunder shall not be construed as a waiver of any such provision or the relinquishment of any such right.

19. No Party Deemed Drafter. Neither the Company nor the Executive shall be deemed to be the drafter of this Amended Agreement, including the Appendices hereto, and, if this Amended Agreement or any provision thereof is construed in any court or other proceeding, said court or other adjudicator shall not construe this Amended Agreement or any provision thereof against either party as the drafter thereof

20. No Oral Modifications. This Amended Agreement may not be modified orally. Any change of this Amended Agreement must be made in writing and signed by Executive and an officer of Company.

21. Counterparts. This Amended Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same Amended Agreement.

IN WITNESS WHEREOF, the parties have executed this Amended Agreement on the date and year first above written.

ATTEST:

FLOWERVE CORPORATION

/s/ Ronald F. Shuff

Signature

Vice President

Title

By: /s/ Hugh K. Coble

Title: Chairman-Executive Committee

/s/ Bernard G. Rethore

Bernard G. Rethore

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APPENDIX A

NONCOMPETITION AGREEMENT

This Noncompetition Agreement is entered into by and between Flowserve Corporation ("Company") and Bernard G. Rethore ("Executive"), effective as of November 24, 1999.

BACKGROUND

The Executive has served as the Company's Board Chairman and Chief Executive Officer. Contemporaneously herewith, Executive and the Company have entered into an Amended Employment Agreement.

Because of the Executive's unique position with the Company and his knowledge of the Company's business, he could cause the Company considerable harm by providing his expertise to a competitor of the Company.

To protect the legitimate interests of the Company, the Company and the Executive have agreed to enter into this Noncompetition Agreement in connection with Company's employment of the Executive.

Therefore, the Executive agrees to be bound and restricted as provided for in this Agreement:

1. The restrictions of this Agreement shall apply while the Executive is employed by the Company and for a period of twenty-four months after the termination of his employment.

2. While the restrictions of this Agreement apply, the Executive is prohibited from engaging in any Competitive Activities. For purposes of this Agreement, "Competitive Activities" means:

(a) Directly or indirectly accepting employment with, consulting with, or assisting any business that is involved with the sale, design, development, manufacture, or production of products competitive with those sold (or anticipated to be sold) by the Company. This prohibition shall apply to any employment with, involvement in, or control of another business, whether as an employee, owner, manager, sole proprietor, joint venturer, partner, shareholder, independent contractor, or in any other capacity. This prohibition shall not prevent the ownership of stock that is publicly traded, provided that (i) the investment is passive, (ii) the Employee has no other involvement with the corporation, (iii) the Employee's ownership interest is less than one percent, and (iv) the Employee makes full disclosure to the Company of the stock ownership at the time the

Employee acquires it.

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(b) Directly or indirectly diverting or influencing or attempting to divert or influence any business of the Company to a competitor.

(c) Directly or indirectly seeking to influence, facilitate, or encourage any Company employee to leave its employ other than in the course of performing his duties hereunder.

3. The restrictions outlined above shall be applicable and enforceable throughout the entire world.

4. The Executive acknowledges that his breach of this Agreement would cause immediate and irreparable harm to the Company. The Company shall be entitled to obtain immediate injunctive relief in the form of a temporary restraining order without notice, preliminary injunction, or permanent injunction against the Executive to enforce the terms of this Agreement. The Company shall not be required to post any bond or other security and shall not be required to demonstrate any actual injury or damage to obtain such injunctive relief from the courts.

5. Any recovery of damages by the Company shall be in addition to and not in lieu of the injunctive relief to which the Company is entitled. In no event shall a damage recovery be considered a penalty or liquidated damages, but it shall be considered as measurable compensatory damages for the Executive's breach of this Agreement.

6. If the Executive materially breaches this Agreement, his right to any future payments pursuant to his employment agreement shall be forfeited as of the date of the breach, except to the extent that such forfeiture applies to benefits payable pursuant to a plan of the Company, if the forfeiture would violate the terms of such plan.

7. If the Executive breaches this Agreement, the Company shall also be entitled to recover all costs of enforcement, including reasonable attorneys' fees, all expenses of litigation, and court costs.

8. This Agreement shall survive the termination of the Executive's employment relationship with the Company and shall not be construed as limiting the Company's right to terminate his employment at any time, subject to the terms of any written employment agreement in effect at the time of termination.

9. No claim or cause of action that the Executive may have against the Company, whether for breach of contract or otherwise, shall be a defense to the enforcement of this Agreement against the Executive.

10. The Executive acknowledges that all of the restrictions contained in this Agreement are reasonable and necessary to protect the Company's legitimate interests. If a court determines that any provision of this Agreement is too broad to be enforceable at law or in equity, the remaining

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terms shall remain unimpaired, and the unenforceable provision shall be deemed replaced by a provision that is valid and enforceable and that most clearly approximates the intention of the parties with respect to the enforceable provision, as evidenced by the remaining valid enforceable provisions.

11. This Agreement shall be enforceable by the Company or any successor

in interest.

12. This Agreement may not be modified orally. Any modification of this Agreement must be reflected in a written agreement approved by the Company's Board and signed by the Executive and the members of the Board's Executive Committee.

13. The Executive agrees to inform any prospective competing employer about the existence of this Agreement before accepting new employment and shall not agree, as a term of any new employment, that the new employer will defend the Executive or pay his attorneys' fees in the event of a lawsuit brought by the Company to enforce the terms of this Agreement.

14. This Agreement shall be construed to fulfill the purposes of the Agreement and shall not be construed in favor of or against either party. Subject to the preceding sentence, this Agreement shall be governed in all respects by the laws of the State of New York.

15. This Agreement may be enforced in the applicable courts of Dallas County, Texas or in any court where the Executive has breached or is alleged to have breached this Agreement. The Executive agrees to submit to the exclusive jurisdiction and venue of the applicable courts of Dallas County, Texas. Any action filed by the Executive shall not affect the enforceability of this provision, which shall govern.

FLOWSERVE CORPORATION

By /s/ Hugh K. Coble	/s/ Bernard G. Rethore
-----	-----
(Signature)	Bernard G. Rethore
 Hugh K. Coble	 24 November 1999
-----	-----
(Printed)	Date
 Chairman - Executive Committee	

(Office)	
 24 November 1999	

(Date)	

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APPENDIX B

RELEASE OF CLAIMS

This Release of Claims is hereby granted by Bernard G. Rethore.

BACKGROUND

Bernard G. Rethore ("Executive") and Flowserve Corporation ("Company") are parties to an Amended Employment Agreement ("Amended Agreement"), dated November 24, 1999. Pursuant to Paragraph 15 of the Amended Agreement, the Company's obligations after 1999 are contingent on this Release of Claims becoming effective.

In consideration of the amounts payable to him under the Amended

Agreement after 1999, the Executive agrees to the following release of claims:

RELEASE

In consideration of the Company's agreement to continue the Executive's employment after 1999 pursuant to the terms of the Amended Agreement, the Executive releases and discharges the Company, its divisions, subsidiaries, predecessors and successors, and the officers, directors, agents, insurers, and employees of any of the foregoing (all together, "Released Persons") from any and all claims or actions of any kind directly or indirectly related to or in any way connected with his employment with Company or his retirement therefrom ("Released Claims"); provided, however, the Released Claims shall not include the Executive's rights to retirement or retiree benefits under any employee benefit plan or his rights under the Amended Agreement, including, without limitation, his right to indemnification or his right to obtain contribution in the event of an entry of judgment against him as a result of any act or failure to act for which he and the Company are jointly responsible. The Executive gives this release regardless of whether the Released Claims are known or unknown. The Executive further agrees that he will not initiate or participate as a party in any lawsuit or claim against a Released Person based on or relating to any of the Released Claims. The Released Claims include, but are not limited to, those based on allegations of wrongful discharge and/or breach of contract and those alleging discrimination on the basis of race, color, sex, religion, national origin, age, handicap, or disability under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Rehabilitation Act of 1973, the Equal Pay Act of 1963, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, or any other federal, state or local law, rule, or regulation. The Released Claims do not include claims that arise after the date on which Executive signs this Release of Claims.

THE EXECUTIVE ACKNOWLEDGES THAT HE HAS BEEN GIVEN A PERIOD OF TWENTY-ONE (21) DAYS WITHIN WHICH TO CONSIDER THIS RELEASE OF CLAIMS AND THAT HE HAS BEEN ADVISED TO CONSULT WITH

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AN ATTORNEY BEFORE SIGNING IT. THE EXECUTIVE UNDERSTANDS THAT HE MAY REVOKE THIS RELEASE OF CLAIMS BY PROVIDING NOTICE OF REVOCATION TO THE CHAIRMAN OF THE COMPENSATION COMMITTEE OF THE COMPANY'S BOARD OF DIRECTORS WITHIN SEVEN (7) DAYS AFTER THE DATE HE SIGNS THIS RELEASE OF CLAIMS AND THAT THE RELEASE OF CLAIMS WILL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE SEVEN (7) DAY REVOCATION PERIOD HAS EXPIRED. IF THE EXECUTIVE DOES NOT NOTIFY THE CHAIRMAN OF THE COMPENSATION COMMITTEE OF HIS REVOCATION WITHIN SUCH SEVEN (7) DAY REVOCATION PERIOD, THIS RELEASE OF CLAIMS SHALL BECOME EFFECTIVE.

/s/ Bernard G. Rethore

Bernard G. Rethore

24 November 1999

Date

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AMENDMENT #1
(THE "AMENDMENT")
TO
AMENDED EMPLOYMENT AGREEMENT
(THE "AMENDED AGREEMENT")
BY AND BETWEEN
FLOWSERVE CORPORATION
(THE "COMPANY")
AND
BERNARD G. RETHORE
("EXECUTIVE")

This Amendment is entered into this 29th day of February, 2000 between Executive and the Company.

1. Paragraph 3 of the Amended Agreement shall be revised and restated in its entirety as follows:

3. Executive's Position and Duties During First Employment Period. During the First Employment Period, the Executive's position and duties shall be those set out in this Paragraph. From the date of execution of this Amended Agreement through December 31, 1999, the Executive shall continue to serve as the Company's Chief Executive Officer and Board Chairman on the same terms and conditions as set forth in Paragraph 3 of the Agreement, which terms and conditions are incorporated by reference as if fully set out herein. Effective January 1, 2000, the Executive shall resign as Chief Executive Officer. From January 1, 2000, through April 20, 2000, the Executive shall serve as non-executive Board Chairman and shall be expected to perform services for the Company up to 10 days a month. He shall continue to be paid \$2,500 per month for the costs associated with temporary living and commuting to and from his permanent residence in Arizona and the Company's headquarters. Effective immediately after the Company's Annual Meeting of Shareholders on April 20, 2000, the Executive shall resign as non-Executive Board Chairman, at which time he shall be given the honorary title of Chairman of the Board Emeritus. During the remainder of the First Employment Period extending from such time on April 20, 2000 to July 31, 2000 (the "Special Transition Period"), Executive shall be released from any further obligations to perform services for the Company or to commute to the Company's headquarters in Dallas.

2. Paragraph 5 of the Amended Agreement shall be revised and restated in its entirety as follows:

5. Executive's Compensation During First Employment Period.

(a) During the First Employment Period, the Executive shall continue to be entitled to compensation as set out in Paragraph 5 of the Agreement, which Paragraph is incorporated by reference as if fully set out herein, subject to the following special provisions governing the Special Transition Period. In addition, the Executive shall be entitled to his reasonable legal fees in negotiating this Amended Agreement.

(b) During the Special Transition Period, Executive's compensation shall be continued as set forth in Paragraph 5, subject only to the following modifications:

(i) Executive shall be granted, effective April 20, 2000 at the then applicable Company common stock closing price, a final non qualified stock option covering 35,000 shares of Company common stock under the Company's 1999 Stock Option Plan, which shall be in full satisfaction of any Company obligation to provide any further stock option, restricted stock or other stock-based compensation during either the First Employment Term or Second Employment Term.

(ii) In lieu of the "Office and Support Staff" to be provided Executive under Section 5(g) of the Agreement, the Company shall pay

(I) Executive the lump sum of \$9,000 to provide Executive with support in maintaining an office in the Phoenix area and

(II) Executive's expenses, in an amount not to exceed \$5,000, in terminating his lease of his Dallas apartment and in relocating his personal belongings from Dallas to Phoenix.

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3. Section 6(c) shall be revised and restated in its entirety as follows:

(c) Bonus. For each fiscal year, the Executive shall have an annual bonus opportunity with a minimum target bonus of no less than 75% of his base salary payable pursuant to Subparagraph (a) during such fiscal year, provided that in the event the Company meets or exceeds applicable year 2000 financial targets, as set forth in the annual incentive plans for senior company officers and the Executive, the Executive shall receive as his bonus payment for the year 2000 an amount equal to (i) the year 2000 bonus payment plus (ii) an additional payment equal to the amount by which his 1999 bonus was reduced from its original calculation by the Compensation Committee in February 2000

The remainder of the Amended Agreement shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective this 29th of February, 2000.

ATTEST:

FLOWSERVE CORPORATION

/s/ Ronald F. Shuff

By: /s/ Hugh K. Coble

Signature Ronald F. Shuff

Title: Chairman-Executive Committee

Vice President-Secretary
and General Counsel

EXECUTIVE

Title

/s/ Bernard G. Rethore

Bernard G. Rethore

Amendment No. 1 to Employment Agreement (the "Agreement")
 Dated July 22, 1997
 by and between
 Flowserve Corporation (the "Company") and
 ("Executive")

The Company and Executive hereby agree to the following amendment to their Agreement dated July 22, 1997:

Termination Following Change in Control

1. Paragraph 2 is hereby amended effective immediately by adding the following sentence which shall become new Section 3(E):

(E) "Notwithstanding anything in this Agreement to the contrary, if your employment is terminated by the Company prior to a change in control, where a change in control in fact occurs, and you reasonably demonstrate that such termination was at the request of a third party who effectuates such change in control, or that such termination was directly related to or in anticipation of such change in control, then, for all purposes of this Agreement, you shall be entitled all payments and benefits provided under this Agreement."

2. All the other provisions of the Agreement shall remain in full force and effect and unchanged, subject to the specific addition noted above.

Flowserve Corporation

Executive

By: /s/ Kevin E. Sheehan

By:

 Kevin E. Sheehan
 Chairman, Compensation Committee

Amendment #2 to Agreement dated July 22, 1997 (the "Agreement")
 between ("You")
 and
 Flowserve Corporation (the "Company")

Effective January 1, 1999, Section 5 (i) (b) of the Agreement shall be revised and restated in its entirety as follows:

- (b) In lieu of any further salary and incentive compensation payments to you for periods subsequent to the Date of Termination, an amount (the "Additional Compensation Payment") equal to 300% of the sum of (x) your annual base salary at the rate in effect as of the Date of Termination (or, if higher, at the rate in effect at the time of the change in control) and (y);
 - (i) for periods beginning after December 31, 1998 and ending before January 1, 2000, the greater of (1) the average annual amount awarded to you under any incentive compensation plans or arrangements for the

two fiscal years immediately preceding the fiscal year during which the Date of Termination occurs (whether or not fully paid) or (2) the average of the target incentives ("Target Incentives") under any such compensation plans or arrangements in effect for the year of the Date of Termination, and the following two calendar years, provided that the Target Incentives for the following two calendar years shall be, where not established prior to such change in control, the greater of the applicable Target Incentives of such compensation plans or arrangements for either the year of the change in control or Date of Termination, where differing;

- (ii) for periods beginning after January 1, 2000, the average of such Target Incentives, as defined and calculated above.

Effective March 1, 1999, Paragraph 5 (iv) and (v) shall be revised as follows:

- I. Paragraph 5 (iv) shall be amended by adding the following sentence at the end of the current text, which shall otherwise remain unchanged, of this Paragraph:

"For purposes of clarification only, the Company's obligation to pay the Supplemental Pension Benefit shall in no way be affected if the Company elects to structure the Qualified Plan as a "cash balance" plan, as such term may be defined by applicable federal government regulations."

- II. Paragraph 5 (v) shall be amended by adding the following sentence at the end of the current text, which shall otherwise remain changed, of this Paragraph:

"However, if the Company was providing you a monthly car allowance, in lieu of actually providing a car, at the time of such Notice of Termination, then the Company shall instead pay you a lump sum, in addition to all other payments due to you hereunder, equal to 24 times the greater of the monthly car allowance

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payable to you at the time of (i) the change of control of the Company or (ii) the Date of termination, where differing. Such lump sum shall be paid to you in cash on the fifteenth day following the Date of Termination."

- III. Paragraphs 8(A), 8(B) and 8(C) , collectively called "NON-COMPETITION", shall be deleted in their entirety. Any other references to said Paragraphs in the Agreement shall be appropriately deleted with the text of the Agreement containing any such references to be hereafter interpreted in such a way as to eliminate any of the former restrictions upon you of Paragraphs 8(A), 8(B), and 8(C).

The remainder of the Agreement shall remain unchanged and in full force and effect.

FLOWSERVE CORPORATION

EXECUTIVE

By /s/ Kevin E. Sheehan

Kevin E. Sheehan
Chairman, Compensation Committee

3/10/99

Date

Date

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.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP
Dallas, Texas
February 10, 2000

REPORT OF MANAGEMENT

The Company's management is responsible for preparation of the accompanying consolidated financial statements. These statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's best estimates and business judgment. Management maintains a system of internal controls, which in management's opinion provides reasonable assurance that assets are safeguarded and transactions properly recorded and executed in accordance with management's authorization. The internal control system is supported by internal audits and is tested and evaluated by the independent auditors in connection with their annual audit. The Board of Directors pursues its responsibility for financial information through an Audit and Finance Committee composed entirely of independent directors. This committee regularly meets not only with management, but also separately with representatives of the independent auditors.

/s/ C. SCOTT GREER

C. Scott Greer
President and
Chief Executive Officer

/s/ RENEE J. HORNBAKER

Renee J. Hornbaker
Vice President and
Chief Financial Officer

/s/ RICK L. JOHNSON

Rick L. Johnson
Vice President and
Chief Accounting Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis are provided to increase understanding of, and should be read in conjunction with, the consolidated financial statements and accompanying notes.

Flowserve Corporation 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 has been restated, giving effect to the transaction as if the two companies had been combined at the beginning of all periods presented. In addition, certain other historical information has been reclassified for consistency with the 1999 presentation.

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. Equipment manufactured and serviced by the Company is used in industries that deal with difficult-to-handle and often corrosive fluids in environments with extreme temperature, pressure, horsepower and speed. 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

In general, 1999 results were lower than the two previous years due to the global markets in which the Company 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 our chemical and petroleum customers, which collectively represent about 71% of our business, was negatively impacted by the economic weakness. This economic weakness contributed to a supply/demand imbalance of chemicals, and an oil price that averaged \$11.12 per barrel in 1998, compared with \$17.78 per barrel in 1997. By the end of 1999, the average price per barrel had increased to \$17.83 and, as a result, the Company 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 6 to 12 months.

BOOKINGS AND SALES

(in millions of dollars)

	BOOKINGS	SALES
	-----	-----
1999	\$1,039.3	\$1,061.3
1998	\$1,082.5	\$1,083.1
1997	\$1,172.4	\$1,152.2

[GRAPH]

Bookings, or incoming orders for which there are firm purchase commitments, 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 comparisons. A stronger U.S. dollar, in relation to other currencies in which the Company conducts its business, reduced 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 also are 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 more than \$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.

In total, sales outside the United States were 42% in both 1999 and 1998, compared with 48% in 1997. These sales declined in the last two years due to weaker economies in Asia and Latin America and negative currency translation effect.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division (RED) for engineered pumps; 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 flow management services.

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

	ROTATING EQUIPMENT DIVISION		

(in millions of dollars)	1999	1998	1997
-----	-----	-----	-----
Sales	\$353.2	\$371.5	\$412.8
Operating income	23.1	39.1	51.0

Sales of pumps and pump parts for the Rotating Equipment Division (RED) decreased to \$353.2 million 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 our chemical industry customers lowered their capital and maintenance spending in response to overcapacity 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 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 attributable to unfavorable pricing.

FLOW CONTROL DIVISION			
(in millions of dollars)	1999	1998	1997
Sales	\$295.3	\$313.2	\$317.2
Operating income	25.1	43.8	47.0

Sales of valves and valve automation products for the Flow Control Division (FCD) 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 a general decline in business levels in the chemical, petrochemical and refining markets. This decline increased price competition and placed downward pressure on selling prices. The sales decrease from 1998 to 1997 was partly offset by the acquisition of Valtek Engineering (United Kingdom licensee) in July 1998.

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 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			
(in millions of dollars)	1999	1998	1997
Sales	\$438.5	\$428.5	\$430.1
Operating income	56.1	65.1	62.7

Sales of seal products and services for the Flow Solutions Division (FSD) 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 net addition of new service centers, while seal sales remained stable as a result of increased market share.

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 with 1997 was 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.

EARNINGS PER SHARE

	AFTER SPECIAL ITEMS -----	SPECIAL ITEMS -----	TOTAL -----
1999	\$0.32	\$0.72	\$1.04
1998	\$1.23	\$0.65	\$1.88
1997	\$1.26	\$0.75	\$2.01

[GRAPH]

Earnings after special items were \$12.2 million (\$0.32 per share) in 1999, compared with \$48.9 million (\$1.23 per share) in 1998 and \$51.6 million (\$1.26 per share) 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 an accounting principle. Earnings before special items were \$39.5 million (\$1.04 per share) in 1999, compared with \$74.9 million (\$1.88 per share) in 1998 and \$82.1 million (\$2.01 per share) in 1997. The decrease in earnings in 1999 was largely due to the decline in sales and a lower gross profit margin. The Company's share

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repurchase program contributed about \$0.02 per share to earnings in 1999 compared with 1998 and \$0.03 per share to earnings compared with 1997.

The restructuring charge of \$15.9 million in 1999 was related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations while the restructuring charges of \$32.6 million in 1997 were related to the Company'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 the Company'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, as well as investment banking fees, legal fees and other costs required to effect the merger. In 1999, the Company 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, the Company recognized an obligation under an executive employment agreement of \$3.8 million recorded in selling and administrative expense. In 1997, the Company sold its Metal Fab subsidiary and realized a pretax 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."

Gross profit margin, gross profit as a percentage of sales, declined to 34.2% in 1999 from 38.3% 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 under-absorption variances due to lower sales, lower selling prices and a less favorable product mix. These reductions were partly offset by savings related to the Company'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 \$363.3 million in 1999 from \$415.3 million in 1998 and \$448.9 million in 1997.

Selling and administrative expense was \$275.9 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 one-time costs for executive separation contracts and certain costs relating to fourth-quarter 1999 facility closures while 1998 included \$3.8 million in one-time 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 with 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 after special items 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.

RESTRUCTURING

In the fourth quarter of 1999, the Company initiated a restructuring program designed to streamline the Company 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 relates 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

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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.

The Company expects to realize ongoing annual operating income benefits of approximately \$20 million per year effective in 2001. In 2000, period integration costs related to the implementation of the program are expected to offset any potential benefit to operating income. Additionally, in 2000, the remaining costs associated with the restructuring portion of the program will be incurred and charged against the restructuring reserve.

The restructuring program is expected to result in a net reduction of approximately 300 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 December 31, 1999, the program had resulted in a net reduction of 64 employees. Expenditures charged to the 1999 restructuring reserve were:

(in thousands of dollars)	Other Exit		Total
	Severance	Costs	
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

MERGER INTEGRATION PROGRAM

In 1997, the Company 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, the Company recognized a one-time restructuring charge of \$32.6 million, excluding Flowserver, in connection with this program. Other nonrecurring 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. The Company paid severance to approximately 331 employees at a cost of \$22.4 million.

BUSINESS PROCESS IMPROVEMENT INITIATIVE

In 1998, the Company's Board of Directors approved a \$120 million expenditure for Flowserver. This business process improvement program was planned to have costs and benefits incremental to the initial merger integration program. Flowserver includes the standardization of the Company's processes and the implementation of a global information system to facilitate common practices. Effective January 1, 1999, merger integration costs relate solely to Flowserver. In 1999, the Company 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.

The Company has reevaluated the Flowserver project, and its 2000 investment in Flowserver will be approximately one-half the 1999 level. In addition, the overall duration of the program will extend beyond its original five-year plan, the scope will be scaled back significantly and the costs will no longer be identified separately as merger integration expense.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATIONS

(in millions of dollars)

	AFTER SPECIAL ITEMS -----	SPECIAL ITEMS -----	TOTAL -----
1999	\$81.9	\$27.4	\$109.3
1998	\$54.1	\$23.7	\$ 77.8
1997	\$90.0	\$25.3	\$115.3

[GRAPH]

Cash flows from operations and financing available under existing credit agreements are the Company's primary sources of short-term liquidity. 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 the Company's increased focus on capital utilization and the resulting decrease in working capital. The decrease in cash flows in 1998 compared with 1997 was primarily due to cash expended for merger restructuring and lower operating profits.

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In January 2000, the Company acquired all of the outstanding stock of Innovative Valve Technologies, Inc. (Invatec) for \$1.62 per share, or about \$15.7 million. In addition, the Company paid Invatec's remaining debt and related obligations of approximately \$84.0 million. The funds for this purchase were obtained from financing available under existing credit agreements.

On February 10, 2000, the Company announced it had reached a definitive agreement to acquire Ingersoll-Dresser Pumps (IDP) from Ingersoll-Rand for \$775 million in cash. The acquisition is expected to close in April 2000. The transaction will be financed with a combination of new bank facilities and senior subordinated notes. In connection with the acquisition, all of the Company's existing debt is expected to be refinanced. The Company also announced it was suspending the payment of its cash dividend, required by the proposed financing of the IDP acquisition.

Additionally, the Company may, subsequent to the closure of the acquisition, initiate a restructuring plan as part of its integration program. At this time, management is not prepared to specifically identify any significant actions to be taken or the estimated cost of such a plan.

CAPITAL EXPENDITURES

(in millions of dollars)

1999	\$40.5
1998	\$38.2
1997	\$39.6

[GRAPH]

Capital expenditures, net of disposals, were \$40.5 million in 1999, compared with \$38.2 million in 1998 and \$39.6 million in 1997. Capital expenditures were funded by operating cash flows. For each of the three years, capital expenditures were invested in machinery and equipment, replacements and upgrades. Capital expenditures in 1999 included about \$11.4 million related to

Flowserver.

FINANCING

During the second quarter of 1998, the Company initiated a \$100 million share repurchase program. In 1998, the Company spent approximately \$64.5 million to repurchase approximately 2.8 million, or 7.1%, of its outstanding shares. During 1999, the Company spent approximately \$5.3 million to purchase an additional 325,300 shares. The Company generally used credit facilities to fund these purchases. Future repurchases may be restricted under the proposed financing required to fund the acquisition of IDP.

In October 1999, the Company entered into a \$600 million revolving credit agreement that replaced its existing agreement. At December 31, 1999, the Company had commitments available of \$460 million and \$140 million outstanding. At December 31, 1999, total debt was 39.6% of the Company's capital structure, compared with 37.2% at December 31, 1998. The ratio increased due to the Company's 1999 restructuring charge and the negative currency translation effect. The interest coverage ratio of the Company's indebtedness was 4.3 times interest at December 31, 1999, compared with 9.5 times interest at December 31, 1998.

In February 2000, the Company signed a commitment letter from Credit Suisse/First Boston and Bank of America for \$1,425 million of financing to acquire IDP. The Company believes that internally generated funds, including synergies from the IDP acquisition, will be adequate to service the debt.

The return on average net assets before special items based on results for 1999 was 7.7%, compared with 12.6% for 1998. The decline is due to the lower sales and earnings discussed previously. Including the impact of special items, the return on average net assets was 3.4% for 1999, compared with 8.6% for 1998. The return on average shareholders' equity before special items was 11.7% in 1999, compared with 19.5% in 1998. Return on shareholders' equity, including special items, was 3.6% for 1999 and 13.1% for 1998.

Acquisitions are an important part of the Company's strategy to increase its earnings and build shareholder value. Accordingly, during 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. 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.

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

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company has certain market-sensitive financial instruments, including long-term debt and investments in foreign subsidiaries. To evaluate the risks associated with these instruments, the Company 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 the Company's net investment in foreign subsidiaries.

The Company considered the impact of a 100-basis-point increase in interest rates and determined such an increase would not materially affect the Company's earnings.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues and profits translated back into U.S. dollars. The primary currencies to which the Company 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. Company policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, the Company 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, the Company generally views its investments in foreign subsidiaries from a long-term perspective, and therefore, does not hedge these investments. The Company uses capital structuring techniques to manage its investment in foreign subsidiaries as deemed necessary. The Company's 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 the Company's 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.

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. The Company does not expect future balance sheets, statements of earnings or statements of cash flows to be materially impacted by the Euro conversion.

YEAR 2000 COSTS

Flowserve Corporation began preparing for the Year 2000 almost two years ago. The Company assessed how it might be impacted by the Year 2000 issue, and formulated and completed implementation of a comprehensive plan to address all concerns. To the best of the Company's knowledge, all mission-critical business and non-information technology systems now support its ability to provide products and services into the 21st century.

The Year 2000 issue was the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer systems that had time-sensitive software may have recognized a date using "00" as the year 1900 rather than the year 2000. This could have resulted in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities.

With regard to information systems, production and other equipment and products, the Company completed all remediation and testing well before the end of 1999.

The Company's preliminary estimate of the total cost for Year 2000 compliance was approximately \$7.0 million and actual expenses were approximately \$6.1 million through the end of 1999. Virtually all of the amounts spent related to the cost to repair or replace software and associated hardware. The Company's costs included the amount specifically related to remedying Year 2000 issues, as well as costs for improved systems that are Year 2000-compliant and would have been acquired in the ordinary course of business, but whose acquisition had been accelerated to ensure compliance by the Year 2000.

Other non-Year 2000 efforts have not been materially delayed or impacted by the Company's Year 2000 initiatives.

The Company believes that the Year 2000 issue did not pose significant operational problems for the Company but will continue to monitor the situation closely. We feel that our early and thorough preparation has enabled us to meet the needs of our customers and stakeholders without significant interruption into the new century.

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.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This document contains various forward-looking statements and includes 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.

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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.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	December 31,	
	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,463	\$ 24,928
Accounts receivable, net	213,625	234,191
Inventories	168,356	199,286
Prepays 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
Treasury stock, at cost - 4,071 and 3,817 shares	464,073	475,803
Accumulated other comprehensive income	(93,448)	(90,404)
	(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.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands)	1999		1998		1997	
	SHARES	AMOUNT	Shares	Amount	Shares	Amount
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.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Year ended December 31,		
	1999	1998	1997
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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

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.

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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.

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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.

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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	
Weighted Average Remaining	Weighted Average	Number	Weighted Average

Range of Exercise Prices Per Share	Contractual Life	Number Outstanding	Exercise Price Per Share	Exercisable at December 31, 1999	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

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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
	=====	=====

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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
	=====

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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

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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

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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.

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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.

FLOWSERVE 1999 ANNUAL REPORT

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
	=====	=====	=====

Assets	Year ended December 31,		
	1999	1998	1997
	-----	-----	-----
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
	=====	=====	=====

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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
	=====	=====

(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

(Amounts in millions, except per share data)	1999 (a)				1998 (b)			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Quarter	-----	-----	-----	-----	-----	-----	-----	-----
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.

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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 10, 2000, the Company announced that it had signed a definitive agreement to acquire Ingersoll-Dresser Pumps (IDP) for \$775 million in cash. IDP is a wholly owned business unit of Ingersoll-Rand Company and recorded unaudited 1999 sales of \$838.0 million and operating income of \$64.0 million after special items. The transaction, which will be accounted for as a purchase, will be financed with a combination of bank financing and senior subordinated notes. Flowserve has received \$1,425 million of committed financing in connection with the acquisition. The transaction is contingent on regulatory approvals and management believes it is expected to close in mid-April 2000.

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FIVE-YEAR SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data and ratios)	December 31,				
	1999	1998	1997	1996	1995
RESULTS OF OPERATIONS					
Sales	\$ 1,061,272	\$ 1,083,086	\$ 1,152,196	\$ 1,097,645	\$ 983,917
Cost of sales	697,928	667,753	703,319	668,718	591,550
Gross profit	363,344	415,333	448,877	428,927	392,367
Selling and administrative expense	275,884	265,556	285,890	283,360	264,426
Research, engineering and development expense	25,645	26,372	26,893	24,522	24,649
Merger transaction and restructuring expense	15,860	--	44,531	5,778	5,042
Merger integration expense	14,207	38,326	6,982	--	--
Operating income	31,748	85,079	84,581	115,267	98,250
Interest expense	15,504	13,175	13,275	12,144	12,293
Other income, net	(2,001)	(1,253)	(7,107)	(5,228)	(2,455)
Gain on sale of subsidiary	--	--	(11,376)	--	--
Earnings before income taxes	18,245	73,157	89,789	108,351	88,412
Provision for income taxes	6,068	25,502	38,223	37,254	34,391
Earnings from continuing operations	12,177	47,655	51,566	71,097	54,021
Cumulative effect of change in accounting principle	--	(1,220)	--	--	--
Net earnings	\$ 12,177	\$ 48,875	\$ 51,566	\$ 71,097	\$ 54,021
Average shares outstanding	37,856	39,898	40,896	41,363	41,652
Net earnings per share (basic and diluted)	\$ 0.32	\$ 1.23	\$ 1.26	\$ 1.72	\$ 1.30
Dividends paid per share	0.56	0.56	0.65	0.57	0.51
Bookings	1,039,262	1,082,484	1,172,431	1,141,614	1,013,861
Ending backlog	270,647	291,082	291,568	287,076	249,562
PERFORMANCE RATIOS (AS A PERCENT OF SALES)					
Gross profit margin	34.2%	38.3%	39.0%	39.1%	39.9%
Selling and administrative expense	26.0%	24.5%	24.8%	25.8%	26.9%
Research, engineering and development expense	2.4%	2.4%	2.3%	2.2%	2.5%
Operating income	3.0%	7.9%	7.3%	10.5%	10.0%
Net earnings	1.1%	4.5%	4.5%	6.5%	5.5%
FINANCIAL CONDITION					
Cash and cash equivalents	\$ 30,463	\$ 24,928	\$ 58,602	\$ 38,933	\$ 28,596
Working capital	259,128	268,164	284,220	279,972	251,774
Net property, plant and equipment	209,976	209,035	209,509	211,738	209,974
Intangibles and other assets	174,387	173,875	155,852	149,003	139,204
Total assets	839,151	870,197	880,025	829,776	801,120
Capital expenditures, net	40,535	38,249	39,560	35,691	39,928
Depreciation and amortization	39,599	39,299	38,933	36,665	34,451
Long-term debt	198,010	186,292	128,936	143,962	125,931
Post-retirement benefits and deferred items	136,207	120,015	125,372	108,127	99,775
Shareholders' equity	308,274	344,764	395,273	388,624	375,246
FINANCIAL RATIOS					
Return on average shareholders' equity	3.6%	13.1%	13.0%	18.6%	15.1%
Return on average net assets	3.4%	8.6%	9.0%	12.5%	10.4%
Debt to capital ratio	39.6%	37.2%	27.1%	30.0%	27.9%
Current ratio	2.3	2.2	2.2	2.5	2.3
Interest coverage ratio	4.3	9.5	10.7	12.9	11.0
Cash dividends paid as a percent of ending shareholders' equity	6.9%	6.5%	6.6%	6.0%	5.6%

FLOWSERVE CORPORATION
LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
Flowserve S.A.	Argentina	100%
Flowserve FSD Pty. Ltd.	Australia	100%
Flowserve Australia Pty. Ltd.	Australia	100%
Flowserve Pty. Ltd.	Australia	100%
Flowserve Dichtungstechnik Gesellschaft m.b.H	Austria	100%
Flowserve (Barbados), Ltd. Foreign Sales Corporation	Barbados	100%
Flowserve SRD S.A.	Belgium	100%
Flowserve FSD N.V.	Belgium	100%
Flowserve Coordination Center S.A.	Belgium	100%
Flowserve RED S.A.	Belgium	100%
Flowserve Ltda	Brazil	100%
Flowserve Inc.	Canada	100%
Flowserve S.A.S	France	100%
Flowserve Essen GmbH	Germany	100%
Flowserve Dortmund Verwaltungs GmbH	Germany	100%
Flowserve Dortmund GmbH & Co. KG	Germany	100%
Flowserve Ahaus GmbH	Germany	100%
Flowserve Microfinish Pumps Pvt. Ltd.	India	76%
Flowserve India Controls Pvt. Ltd.	India	95%
Flowserve Microfinish Valves Pvt. Ltd.	India	76%
PT Flowserve	Indonesia	75%
Flowserve Ireland Limited	Ireland	100%
Flowserve Spa	Italy	100%
Flowserve Japan K.K.	Japan	100%
Ebara-Byron Jackson K.K.	Japan	50%
Flowserve Sdn. Bhd.	Malaysia	70%
Flowserve (Mauritius) Corporation	Mauritius	100%
Flowserve S.A. de C.V.	Mexico	100%
Flowserve B.V.	Netherlands	
		100%
Flowserve Services B.V.	Netherlands	100%
Flowserve International B.V.	Netherlands	100%
Flowserve New Zealand Limited	New Zealand	100%

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
Flowserve Abahsain Co.Ltd.	Saudi Arabia	60%
Flowserve Pte. Ltd.	Singapore	100%
Valtek South Africa (Proprietary) Limited	South Africa	100%
Flowserve, S.A.	Spain	100%
Flowserve S.A.	Switzerland	100%
Flowserve Siam Co., Ltd.	Thailand	60%
Flowserve International Limited	United Kingdom	100%
Flowserve Limited.	United Kingdom	100%
Flowserve International, Inc.	U.S. - Delaware	100%
Flowserve FSD Corporation	U.S. - Delaware	100%
Flowserve FCD Corporation	U.S. - Delaware	100%
Flowserve RED Corporation	U.S. - Delaware	100%
Flowserve Holdings, Inc.	U.S. - Delaware	100%
Flowserve Management Company (Business Trust)	U.S. - Delaware	100%
Durametallc Australia Holding Company	U.S. - Michigan	100%
Flowserve New Mexico, Inc.	U.S. - New Mexico	100%
Innovative Valve Technologies, Inc.	U.S. - Delaware	100%
Flowserve Venezuela S.A.	Venezuela	100%
(Subsidiaries of Innovative Valve Technologies, Inc.)		
The Safe Seal Company, Inc.	U.S. - Texas	100%
Harley Industries, Inc.	U.S. - California	
Valve Repair of South Carolina, Inc.	U.S. - South Carolina	
The Safe Seal Company (Canada), Inc.	Canada	
GSV, Inc.	U.S. - Florida	
Plant Specialites, Inc.	U.S. - Louisiana	
Puget Investments, Inc.	U.S. - Washington	100%
Steam Supply & Rubber Co., Inc.	U.S. - Washington	
Flickinger Company	U.S. - Washington	
Flickinger Benicia Inc.	U.S. - Washington	100%

Industrial Controls & Equipment, Inc.
Valve Actuation & Repair Company, Inc.
Southern Valve Service, Inc.
L. T. Koppl Industries, Inc.
Koppl Company

U.S. - Pennsylvania	100%
U.S. - West Virginia	100%
U.S. - Alabama	100%
U.S. - California	100%
U.S. - California	

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NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENTAGE OWNED -----
Koppl Company of Arizona	U.S. - Arizona	
Koppl Industrial Systems, Inc.	U.S. - California	
Koppl Industrial Systems, Inc.	U.S. - Georgia	
Koppl Industrial Systems, Inc.	U.S. - Texas	
DIVT Acquisition-Delaware, LLC.	U.S. - Delaware	100%
Dalco, LLC.	U.S. - Kentucky	100%
DIVT Subsidiary, LLC.	U.S. - Delaware	
Seeley & Jones, Incorporated	U.S. - Connecticut	100%
Preventive Maintenance, Inc.	U.S. - North Carolina	100%
Cypress Industries, Inc.	U.S. - Illinois	100%
IPSCO Holding, Inc.	U.S. - Delaware	100%
International Piping Services Company	U.S. - Illinois	
Mid-America Energies Corp.	U.S. - Delaware	
IPSCO-Florida, Inc.	U.S. - Florida	
IPSCO GmbH Germany	Germany	
IPSCO (U.K.) Limited	United Kingdom	
Plant Maintenance, Inc.	U.S. - Delaware	100%
Energy Maintenance, Inc.	U.S. - Missouri	
Production Machine Incorporated	U.S. - Oklahoma	
Energy Maintenance Incorporated	U.S. - Oklahoma	
CECORP, Inc.	U.S. - Delaware	100%
Boyden, Inc.	U.S. - West Virginia	100%
Colonial Process Equipment & Service Co., Inc.	U.S. - Delaware	100%
VARCO Valves, Inc.	U.S. - Delaware	100%

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Flowserve Corporation of our report dated February 10, 2000, included in the 1999 Annual Report to Shareholders of Flowserve Corporation.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-28497) pertaining to the 1989 Stock Option Plan, (Form S-8 No. 333-82081) and (Form S-8 No. 33-28497) pertaining to the Flowserve Corporation Retirement Savings Plan (formerly the Duriron Company, Inc. Savings and Thrift Plan), (Form S-8 No. 333-50667) pertaining to the BW/IP, Inc. 1996 Long-Term Incentive Plan, the BW/IP, Inc. 1996 Directors' Stock and Deferred Compensation Plan, the BW/IP International, Inc. 1992 Long-Term Incentive Plan and the BW/IP Holding, Inc. Non-Employee Directors' Stock Option Plan of our reports dated February 10, 2000, with respect to the consolidated financial statements and schedule of Flowserve Corporation included or incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 1999.

/s/ Ernst & Young LLP

Dallas, Texas
March 20, 2000

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