

FLOWSERVE CORP
Form 10-K
February 18, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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

(State or other jurisdiction of
incorporation or organization)

31-0267900

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

5215 N. O'Connor Boulevard

Suite 2300, Irving, Texas

(Address of principal executive offices)

Registrant's telephone number, including area code:

(972) 443-6500

75039

(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$1.25 Par Value

Name of Each Exchange on Which Registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark 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. ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting company ☐

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company. Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common stock as reported on June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$6,464,000,000. For purposes of the foregoing calculation only, all directors, executive officers and known 5% beneficial owners have been deemed affiliates.

Number of the registrant's common shares outstanding as of February 12, 2014 was 137,586,959.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive proxy statement for the registrant's 2014 Annual Meeting of Shareholders scheduled to be held on May 22, 2014 is incorporated by reference into Part III hereof.

FLOWSERVE CORPORATION
FORM 10-K

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>13</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>20</u>
<u>Item 2. Properties</u>	<u>20</u>
<u>Item 3. Legal Proceedings</u>	<u>20</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>20</u>
<u>PART II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>21</u>
<u>Item 6. Selected Financial Data</u>	<u>24</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>48</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>102</u>
<u>Item 9A. Controls and Procedures</u>	<u>102</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>103</u>
<u>Item 11. Executive Compensation</u>	<u>103</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>103</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>103</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>103</u>
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>104</u>
<u>Signatures</u>	<u>105</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

PART I

ITEM 1. BUSINESS

OVERVIEW

Flowserve Corporation is a world leading manufacturer and aftermarket service provider of comprehensive flow control systems. Under the name of a predecessor entity, we were incorporated in the State of New York on May 1, 1912. Flowserve Corporation as it exists today was created in 1997 through the merger of two leading fluid motion and control companies — BW/IP and Durco International. Over the years, we have evolved through organic growth and strategic acquisitions, and our 220-year history of Flowserve heritage brands serves as the foundation for the breadth and depth of our products and services today. Unless the context otherwise indicates, references to "Flowserve," "the Company" and such words as "we," "our" and "us" include Flowserve Corporation and its subsidiaries.

We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation (including nuclear, fossil and renewable) and water management, as well as certain general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting.

We sell our products and services to more than 10,000 companies, including some of the world's leading engineering, procurement and construction firms ("EPC"), original equipment manufacturers, distributors and end users. Our products and services are used in several distinct industries having a broad geographic reach. Our bookings mix by industry in 2013 and 2012 consisted of:

	2013		2012	
• oil and gas	41	%	41	%
• general industries(1)	22	%	22	%
• chemical	20	%	19	%
• power generation	13	%	14	%
• water management	4	%	4	%

General industries includes mining and ore processing, pharmaceuticals, pulp and paper, food and beverage and (1) other smaller applications, as well as sales to distributors whose end customers typically operate in the industries we primarily serve.

The breakdown of the geographic regions to which our sales were shipped in 2013 and 2012 were as follows:

	2013		2012	
• North America	34	%	33	%
• Europe	21	%	21	%
• Asia Pacific	20	%	20	%
• Middle East and Africa	14	%	16	%
• Latin America	11	%	10	%

We have pursued a strategy of industry diversity and geographic breadth to mitigate the impact on our business of normal economic downturns in any one of the industries or in any particular part of the world we serve. For events that may occur and adversely impact our business, financial condition, results of operations and cash flows, refer to "Item 1A. Risk Factors" of this Annual Report on Form 10-K for the year ended December 31, 2013 ("Annual Report"). For information on our sales and long-lived assets by geographic areas, see Note 17 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" ("Item 8") of this Annual Report.

We conduct our operations through three business segments based on type of product and how we manage the business:

- Engineered Product Division ("EPD") for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

Industrial Product Division ("IPD") for pre-configured engineered pumps and pump systems and related products and services; and

Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our business segments share a focus on industrial flow control technology and benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. EPD and IPD have a high number of common customers and complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. All segments share certain resources and functions, including elements of research and development ("R&D"), supply chain, safety, quality assurance and administrative functions that provide efficiencies and an overall lower cost structure.

In 2012, a unified operational leadership structure was announced resulting in the creation of a Chief Operating Officer ("COO") position. We believe this leadership structure positions the company to better leverage operational excellence, cost reduction initiatives and internal synergies across our entire operating platform to drive further growth and increase shareholders' value. Our segment leadership reports to our COO, and the segments share leadership for operational support functions such as R&D, marketing and supply chain.

Strategies

Our overarching objective is to grow our position as a product and integrated solutions provider in the flow control industry. This objective includes continuing to sell products by building on existing sales relationships and leveraging the power of our portfolio of products and services. It also includes delivering specific end-user solutions that help customers attain their business goals by ensuring maximum reliability at a decreased cost of ownership. This objective is pursued by cultivating a corporate culture based on workplace safety for our employees, ethical and transparent business practices and a dedicated focus on serving our customers. These three pillars support a collaborative, 'One Flowserve' approach that leverages a diverse and inclusive work environment worldwide. We seek to drive increasing enterprise value by using the following strategies: disciplined profitable growth, customer intimacy, innovation and portfolio management, strategic localization, operational excellence, employee focus and sustainable business model. The key elements of these strategies are outlined below.

Disciplined Profitable Growth

Disciplined profitable growth is focused on growing revenues profitably from our existing portfolio of products and services, as well as through the development or acquisition of new customer-driven products and services. Its overarching goals are to focus on opportunities that can maximize the organic growth from existing customers and to evaluate potential new customer-partnering initiatives that maximize the capture of products' total life cycle. We believe we are the largest major pump, valve and seal company that can offer customers a differentiated option of flow management products and services across a broad portfolio, as well as offer additional options that include any combination of products and solution support packages.

We also seek to continue to review our substantial installed pump, valve and seal base as a means to expand the aftermarket parts and services business, as customers are increasingly using third-party aftermarket parts and service providers to reduce their fixed costs and improve profitability. To date, the aftermarket business has provided us with a steady source of revenues and cash flows at higher margins than are typically realized with original equipment sales. Aftermarket sales represented approximately 40% and 41% of total sales in 2013 and 2012, respectively. We are building on our established presence through an extensive global QRC network to provide the immediate parts, service and technical support required to effectively manage and expand the aftermarket business created from our installed base.

Customer Intimacy

Customer intimacy defines our approach to being prepared to serve the needs of our current and future customers better than our competition. Through our ongoing relationships with our customers, we seek to gain a rich understanding of their business objectives and how our portfolio of offerings can best help them succeed. We collaborate with our customers on the front-end engineering and design work to drive flow management solutions that effectively generate the desired business outcomes. As we progress through original equipment projects, we work closely with our customers to understand and prepare for the long-term support needs for their operations with the intent of maximizing total life cycle value for our customers' investments.

We seek to capture additional aftermarket business by creating mutually beneficial opportunities for us and our customers through sourcing and maintenance alliance programs where we provide all or an agreed-upon portion of customers' parts and servicing needs. These alliances enable us to develop long-term relationships with our customers and serve as an effective platform for introducing new products and services and generating additional sales.

Innovation and Portfolio Management

The ongoing management of our portfolio of products and services is critical to our success. As part of managing our portfolio, we continue to rationalize our portfolio of products and services to ensure alignment with changing market requirements. We also continue to invest in R&D to expand the scope of our product offerings and our deployment of advanced technologies. The infusion of advanced technologies into new products and services continues to play a critical role in the ongoing evolution of our product portfolio. Our objective is to improve the percentage of revenue derived from new products as a function of overall sales, utilizing technological innovation to improve overall product life cycle and reduce total cost of ownership for our customers.

We employ a robust portfolio management and project execution process to seek out new product and technology opportunities, evaluate their potential return on investment and allocate resources to their development on a prioritized basis. Each project is reviewed on a routine basis for such performance measures as time to market, net present value, budget adherence, technical and commercial risk and compliance with customer requirements. Technical skill sets and knowledge are deployed across business segment boundaries to ensure that we bring the best capabilities to bear for each project. Collectively, our R&D portfolio is a key to our ability to differentiate our product and service offerings from other competitors in our target markets.

We are focused on exploring and commercializing new technologies. In many of our research areas, we are teaming with universities and experts in the appropriate scientific fields to accelerate the required learning and to shorten the development time in leveraging the value of applied technologies in our products and services. Our intent is to be a market leader in the application of advanced technology to improve product performance and return on investment for our customers.

Predictive diagnostics and asset management continue to be one of the key areas of effort for us across our business segments. Building on the strength of our ValveSight, Technology Advantage solutions and integration with host control systems, we have continued to deploy more diagnostics capabilities into our devices and expand on the equipment that can be monitored continuously. These capabilities continue to provide a key source of competitive advantage in the marketplace and are saving our customers time and money in keeping their operations running. We continually evaluate acquisitions, joint ventures and other strategic investment opportunities to broaden our product portfolio, service capabilities, geographic presence and operational capabilities to meet the growing needs of our customers. We evaluate all investment opportunities through a decision filtering process to ensure a good strategic, financial and cultural fit.

Strategic Localization

Strategic localization describes our global growth strategy. While we are a global company, we recognize that opportunities still remain. Therefore, we strive to advance our presence in geographies that we believe are critical to our future success as a company by focusing on the following areas:

- expanding our global presence to capture business in developing geographic market areas;
- utilizing low-cost sourcing opportunities to remain competitive in the global economy; and
- attracting and retaining the global intellectual capital required to support our growth plans in new geographical areas.

We believe there are attractive opportunities in international markets, particularly in Africa, China, India, Latin America, the Middle East and Russia, and we intend to continue to utilize our global presence and strategically invest to further penetrate these markets. In the aftermarket services business, we seek to strategically add QRC sites in order to provide rapid response, fast delivery and field repair on a global scale for our customers. In 2013, we added two QRCs, expanding our ability to effectively deliver aftermarket support globally.

We believe that our future success will be supported by investments made to establish indigenous operations to effectively serve the local market while taking advantage of low-cost manufacturing, competent engineering and strategic sourcing where practical. We believe that this positions us well to support our global customers from project conception through commissioning and throughout the life of their operations. For example, we are in the process of constructing a new pump manufacturing site in China that is anticipated to be operational in 2014.

We continue to develop and increase our manufacturing, engineering and sourcing functions in lower-cost regions and emerging markets such as India, China, Mexico, Latin America, the Middle East and Eastern Europe as we drive higher value-add from our supply base of materials and components and satisfy local content requirements. In 2013,

these lower-cost regions supplied our business segments with direct materials ranging from 19% to 35% of business segment spending.

3

Operational Excellence

The operational excellence strategy encapsulates ongoing programs that work to drive increased customer fulfillment and yield internal productivity. This initiative includes:

- driving improved customer fulfillment through metrics such as on-time delivery, cost reduction, quality, cycle time reduction and warranty cost reduction as a percentage of sales;
- continuing to develop a culture of continuous improvement that delivers maximum productivity and cost efficiencies; and
- implementing global functional competencies to drive standardized processes.

We seek to increase our operational efficiency through our Continuous Improvement Process ("CIP") initiative, which utilizes tools such as value analysis, value engineering, six sigma methodology, lean manufacturing and capacity management to improve quality and processes, reduce product cycle times and lower costs. Recognizing that employees are our most valuable resource in achieving operational excellence goals, we have instituted CIP training tailored to maximize the impact on our business. To date, we have approximately 2,100 active employees that are CIP-trained or certified as "Green Belts," "Black Belts" or "Master Black Belts," and are deployed on CIP projects throughout our operations, as well as in the front office of the business. As a result of the CIP initiative, we have developed and implemented processes at various sites to reduce our engineering and manufacturing process cycle time, improve on-time delivery and service response time, optimize working capital levels and reduce costs. We have also experienced success in sharing and applying best practices achieved in one business segment and deploying those ideas to other segments of the business.

We continue to rationalize existing Enterprise Resource Planning ("ERP") systems onto six strategic ERP systems. Going forward, these six strategic ERP systems will be maintained as core systems with standard tool sets, and will be enhanced as needed to meet the growing needs of the business in areas such as e-commerce, back office optimization and export compliance. Further investment in non-strategic ERP systems will be limited to compliance matters and conversion to strategic ERP systems.

We also seek to improve our working capital utilization, with a particular focus on management of accounts receivable and inventory. See further discussion in the "Liquidity and Capital Resources" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("Item 7") of this Annual Report.

Employee Focus

We focus on several elements in our strategic efforts to continuously enhance our organizational capability, including:

- institutionalizing our succession planning along with our core competencies and performance management capabilities, with a focus on key positions and critical talent pools;
- utilizing these capabilities to drive employee engagement through our training initiatives and leadership development programs and facilitate our cross-business segment and functional development assignments;
- developing talent acquisition programs such as our engineering recruitment program to address current and future critical talent needs to support our emerging markets and global growth;
- capturing the intellectual capital in the current workforce, disseminating it throughout our company and sharing it with customers as a competitive advantage;
- creating a total compensation program that provides our associates with equitable opportunities that are competitive and linked to business and individual performance while promoting employee behavior consistent with our code of business conduct and risk tolerance; and
- building a diverse and globally inclusive organization with a strong ethical and compliance culture based on transparency and trust.

We continue to focus on training through the distribution of electronic learning packages in multiple languages for our Code of Business Conduct, workplace harassment, facility safety, anti-bribery, export compliance and other regulatory and compliance programs. We also drive our training and leadership development programs through the deployment of general management development, manager competencies and a series of multi-lingual programs that focus on enhancing people management skills.

Sustainable Business Model

The sustainable business model initiative is focused on areas that have the potential of adversely affecting our reputation, limiting our financial flexibility or creating unnecessary risk for any of our stakeholders. We proactively administer an enterprise risk management program with regular reviews of high-level matters with our Board of Directors. We work with our capital sourcing partners to ensure that the terms of our credit facilities and long-term debt are appropriately aligned with our business

strategy. We also train our associates on and monitor matters of a legal or ethical nature to support understanding and compliance on a global basis.

Competition

Despite consolidation activities in past years, the markets for our products remain highly competitive, with primary competitive drivers being price, reputation, timeliness of delivery, quality, proximity to service centers and technical expertise, as well as contractual terms and previous installation history. In the pursuit of large capital projects, competitive drivers and competition vary depending on the industry and products involved. Industries experiencing slow growth generally tend to have a competitive environment more heavily influenced by price due to supply outweighing demand, and price competition tends to be more significant for original equipment orders than aftermarket services. Considering the domestic and global economic environments in 2013 and current forecasts for 2014, pricing was and may continue to be a particularly influential competitive factor. The unique competitive environments in each of our three business segments are discussed in more detail under the "Business Segments" heading below.

In the aftermarket portion of our business, we compete against large, well-established national and global competitors and, in some markets, against regional and local companies who produce low-cost replications of spare parts. In the oil and gas and chemical industries, the primary competitors for aftermarket services tend to be customers' own in-house capabilities. In the nuclear power generation industry, we possess certain competitive advantages due to our "N Stamp" certification, which is a prerequisite to serve customers in that industry, and our considerable base of proprietary knowledge. In other industries, the competitors for aftermarket services tend to be local independent repair shops and low-cost replicators. Aftermarket competition for standardized products is aggressive due to the existence of common standards allowing for easier replacement or repair of the installed products.

In the sale of aftermarket products and services, we benefit from our large installed base of pumps, valves and seals, which continually require maintenance, repair and replacement parts due to the nature of the products and the conditions under which they operate. Timeliness of delivery, quality and the proximity of service centers are important customer considerations when selecting a provider for aftermarket products and services. In geographic regions where we are locally positioned to provide a quick response, customers have traditionally relied on us, rather than our competitors, for aftermarket products relating to our highly-engineered and customized products, although we are seeing increased competition in this area.

Generally, our customers attempt to reduce the number of vendors from which they purchase, thereby reducing the size and diversity of their supply chain. Although vendor reduction programs could adversely affect our business, we have been successful in establishing long-term supply agreements with a number of customers. While the majority of these agreements do not provide us with exclusive rights, they can provide us a "preferred" status with our customers and thereby increase opportunities to win future business. We also utilize our LifeCycle Advantage program to establish fee-based contracts to manage customers' aftermarket requirements. These programs provide an opportunity to manage the customer's installed base and expand the business relationship with the customer.

Our ability to use our portfolio of products, solutions and services to meet customer needs is a competitive strength. Our market approach is to create value for our customers throughout the life cycle of their investments in flow control management. We continue to explore and develop potential new offerings in conjunction with our customers. In the early phases of project design, we endeavor to create value in optimizing the selection of equipment for the customer's specific application, as we are capable of providing technical expertise on product and system capabilities even outside the scope of our specific products, solutions and services. After the equipment is constructed and delivered to the customer's site, we continue to create value through our aftermarket capabilities by optimizing the performance of the equipment over its operational life. Our skilled service personnel can provide these aftermarket services for our products, as well as many competitors' products, within the installed base. This value is further enhanced by the global reach of our QRCs and, when combined with our other solutions for our customers' flow control management needs, allows us to create value for our customers during all phases of the capital expenditure cycle.

New Product Development

We spent \$37.8 million, \$38.9 million and \$35.0 million during 2013, 2012 and 2011, respectively, on company-sponsored R&D initiatives. Our R&D group consists of engineers involved in new product development and improvement of existing products. Additionally, we sponsor consortium programs for research with various

universities and jointly conduct limited development work with certain vendors, licensees and customers. We believe our R&D expenditures are adequate to sustain our ongoing and necessary future product development. In addition, we work closely with our customers on customer-sponsored research activities to help execute their R&D initiatives in connection with our products and services. New product development in each of our three business segments is discussed in more detail under the "Business Segments" heading below.

Customers

We sell to a wide variety of customers globally including leading EPC firms, original equipment manufacturers, distributors and end users in several distinct industries: oil and gas, chemical, power generation, water management and general industries. We do not believe that we have sales to any individual customer that represent 10% or more of consolidated 2013 revenues. Customer information relating to each of our three business segments is discussed in more detail under the "Business Segments" heading below.

We are not normally required to carry unusually high amounts of inventory to meet customer delivery requirements, although higher backlog levels and longer lead times generally require higher amounts of inventory. We typically require advance cash payments from customers on longer lead time projects to help offset our investment in inventory. We have initiated programs targeted at improving our operational effectiveness to reduce our overall working capital needs. While we do provide cancellation policies through our contractual relationships, we generally do not provide rights of product return for our customers.

Selling and Distribution

We primarily distribute our products through direct sales by employees assigned to specific regions, industries or products. In addition, we use distributors and sales representatives to supplement our direct sales force in countries where it is more appropriate due to business practices or customs, or whenever the use of direct sales staff is not economically efficient. We generate a majority of our sales leads through existing relationships with vendors, customers and prospects or through referrals.

Intellectual Property

We own a number of trademarks and patents relating to the names and designs of our products. We consider our trademarks and patents to be valuable assets of our business. In addition, our pool of proprietary information, consisting of know-how and trade secrets related to the design, manufacture and operation of our products, is considered particularly valuable. Accordingly, we take proactive measures to protect such proprietary information. We generally own the rights to the products that we manufacture and sell and are unencumbered by licensing or franchise agreements. Our trademarks can typically be renewed indefinitely as long as they remain in use, whereas our existing patents generally expire 20 years from the dates they were filed, which has occurred at various times in the past. We do not believe that the expiration of any individual patent will have a material adverse impact on our business, financial condition or result of operations.

Raw Materials

The principal raw materials used in manufacturing our products are readily available and include ferrous and non-ferrous metals in the form of bar stock, machined castings, fasteners, forgings and motors, as well as silicon, carbon faces, gaskets and fluoropolymer components. A substantial volume of our raw materials is purchased from outside sources, and we have been able to develop a robust supply chain and anticipate no significant shortages of such materials in the future. We continually monitor the business conditions of our suppliers to manage competitive market conditions and to avoid potential supply disruptions. We continue to expand global sourcing to capitalize on localization in emerging markets and low-cost sources of purchased goods balanced with efficient consolidated and compliant logistics.

We are a vertically-integrated manufacturer of certain pump and valve products. Certain corrosion-resistant castings for our pumps and valves are manufactured at our foundries. Other metal castings are either manufactured at our foundries or purchased from qualified and approved foundry sources.

Concerning the products we supply to customers in the nuclear power generation industry, suppliers of raw materials for nuclear power generation markets must be qualified to meet the requirements of nuclear industry standards and governmental regulations. Supply channels for these materials are currently adequate, and we do not anticipate difficulty in obtaining such materials in the future.

Employees and Labor Relations

We have approximately 18,000 employees globally. In the United States ("U.S."), a portion of the hourly employees at our pump manufacturing plant located in Vernon, California, our pump service center located in Cleveland, Ohio, our valve manufacturing plant located in Lynchburg, Virginia and our foundry located in Dayton, Ohio, are represented by unions. Additionally, some employees at select facilities in the following countries are unionized or have employee works councils: Argentina, Australia, Austria, Brazil, Canada, Finland, France, Germany, Italy, Japan, Mexico, The

Netherlands, Poland, Spain, Sweden and the United Kingdom ("U.K."). We believe relations with our employees throughout our operations are generally satisfactory, including those employees represented by unions and employee works councils. No unionized facility accounted for more than 10% of our consolidated 2013 revenues.

Environmental Regulations and Proceedings

We are subject to environmental laws and regulations in all jurisdictions in which we have operating facilities. These requirements primarily relate to the generation and disposal of waste, air emissions and waste water discharges. We periodically make capital expenditures to enhance our compliance with environmental requirements, as well as to abate and control pollution. At present, we have no plans for any material capital expenditures for environmental control equipment at any of our facilities. However, we have incurred and continue to incur operating costs relating to ongoing environmental compliance matters. Based on existing and proposed environmental requirements and our anticipated production schedule, we believe that future environmental compliance expenditures will not have a material adverse effect on our financial condition, results of operations or cash flows.

We use hazardous substances and generate hazardous wastes in many of our manufacturing and foundry operations. Most of our current and former properties are or have been used for industrial purposes and some may require clean-up of historical contamination. During the due diligence phase of our acquisitions, we conduct environmental site assessments to identify potential environmental liabilities and required clean-up measures. We are currently conducting follow-up investigation and/or remediation activities at those locations where we have known environmental concerns. We have cleaned up a majority of the sites with known historical contamination and are addressing the remaining identified issues.

Over the years, we have been involved as one of many potentially responsible parties ("PRP") at former public waste disposal sites that are or were subject to investigation and remediation. We are currently involved as a PRP at five Superfund sites. The sites are in various stages of evaluation by government authorities. Our total projected "fair share" cost allocation at these five sites is expected to be immaterial. See "Item 3. Legal Proceedings" included in this Annual Report for more information.

We have established reserves that we currently believe to be adequate to cover our currently identified on-site and off-site environmental liabilities.

Exports

Our export sales from the U.S. to foreign unaffiliated customers were \$355.7 million in 2013, \$304.5 million in 2012 and \$365.8 million in 2011.

Licenses are required from U.S. and other government agencies to export certain products. In particular, products with nuclear power generation and/or military applications are restricted, as are certain other pump, valve and seal products.

BUSINESS SEGMENTS

In addition to the business segment information presented below, Note 17 to our consolidated financial statements in Item 8 of this Annual Report contains additional financial information about our business segments and geographic areas in which we have conducted business in 2013, 2012 and 2011.

ENGINEERED PRODUCT DIVISION

Our largest business segment is EPD, through which we design, manufacture, distribute and service custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems, replacement parts and related equipment. The business consists of long lead time, highly-engineered, custom-configured products, which require extensive test requirements and superior project management skills, as well as aftermarket services supporting global infrastructure industries. EPD products and services are primarily used by companies that operate in the oil and gas, power generation, chemical, water management and general industries. We market our pump and mechanical seal products through our global sales force and our regional QRCs and service and repair centers or through independent distributors and sales representatives. A portion of our mechanical seal products are sold directly to original equipment manufacturers for incorporation into rotating equipment requiring mechanical seals.

Our pump products are manufactured in a wide range of metal alloys and with a variety of configurations to meet the critical operating demands of our customers. Mechanical seals are critical to the reliable operation of rotating equipment in that they prevent leakage and emissions of hazardous substances from the rotating equipment and reduce shaft wear on the equipment caused by the use of non-mechanical seals. We also manufacture a gas-lubricated mechanical seal that is used in high-speed compressors for gas pipelines and in the oil and gas production and process markets. Our products are currently manufactured at 29 plants worldwide, nine of which are located in Europe, 11 in North America, four in Asia Pacific and five in Latin America.

We also conduct business through strategic foreign joint ventures. We have six unconsolidated joint ventures that are located in China, India, Japan, Saudi Arabia, South Korea and the United Arab Emirates, where a portion of our products are manufactured, assembled or serviced in these territories. These relationships provide numerous strategic opportunities, including increased access to our current and new markets, access to additional manufacturing capacity and expansion of our operational platform to support low-cost sourcing initiatives and capacity demands for other markets.

EPD Products

We manufacture more than 40 different active types of pumps and approximately 185 different models of mechanical seals and sealing systems. The following is a summary list of our EPD products and globally recognized brands:

EPD Product Types

Between Bearings Pumps

- Single Case — Axially Split
- Single Case — Radially Split
- Double Case

Positive Displacement Pumps

- Multiphase
- Reciprocating
- Screw

Specialty Products

- Nuclear Pumps
- Nuclear Seals
- Cryogenic Pumps
- Cryogenic Liquid Expander
- Hydraulic Decoking Systems
- API Slurry Pumps

Overhung Pumps

- API Process

Mechanical Seals and Seal Support Systems

- Gas Barrier Seals
- Dry-Running Seals

- Power Recovery — DWEER
- Power Recovery — Hydroturbine
- Energy Recovery Devices
- CVP Concrete Volute Pumps
- Wireless Transmitters

EPD Brand Names

- BW Seals
- Byron Jackson
- Calder Energy Recovery Devices
- Cameron
- Durametallic
- FEDD Wireless
- Five Star Seal
- Flowserve
- Flowstar
- GASPAC™
- IDP
- Interseal
- Jeumont-Schneider

- Lawrence
- LifeCycle Advantage
- Niigata Worthington
- QRC™
- Pacific
- Pacific Weitz
- Pac-Seal
- ReadySeal
- United Centrifugal
- Western Land Roller
- Wilson-Snyder
- Worthington
- Worthington-Simpson

EPD Services

We provide engineered aftermarket services through our global network of 127 QRCs, some of which are co-located in manufacturing facilities, in 42 countries. Our EPD service personnel provide a comprehensive set of equipment services for flow management control systems, including installation, commissioning, repair, advanced diagnostics, re-rate and retrofit programs, machining and comprehensive asset management solutions. We provide asset management services and condition monitoring for rotating equipment through special contracts with many of our customers that reduce maintenance costs. A large portion of EPD's service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

EPD New Product Development

Our investments in new product R&D continue to focus on increasing the capability of our products as customer applications become more advanced, demanding greater levels of production (i.e., flow, power and pressure) and under more extreme conditions beyond the level of traditional technology. We continue to develop innovations that improve product performance and our competitive position in the engineered equipment industry, specifically targeting pipeline, offshore and downstream applications for the oil and gas market. The emergence of extreme pressure applications prompted the development of an advanced stage design

and construction of high pressure test capability necessary to validate the technology prior to introduction into the market. Successful completion of the multiphase testing, as part of the subsea product development, validated our design predictions and established the baseline for future advances in subsea and land-based designs of this product. As new sources of energy generation are explored, we have been developing new product designs to support the most critical applications in the power generation market. New designs and qualification test programs continue to support the critical services found in the modern nuclear power generation plant. In addition to nuclear pump product development, we have focused development efforts on an advanced seal design required to accommodate upset conditions recently identified by the nuclear industry. Continued engagement with our end users is exemplified through completion of advancements in coke cutting technology, nozzle design and auxiliary equipment improvements, as well as creation of an automated cutting system to improve operator safety.

We continue to address our core products with design enhancements to improve performance and the speed at which we can deliver our products. Application of advanced computational fluid dynamics methods utilizing unsteady flow analysis led to the development of an advanced inlet chamber and impeller vane design for high energy injection water pumps. Our engineering teams continue to apply and develop sophisticated design technology and methods supporting continuous improvement of our proven technology. Additionally, we are incentivizing our operations and tracking the R&D projects more closely, which is leading to broader engagement in developing new products.

In 2013, EPD continued to advance our Technology Advantage platform through the Integrated Solutions Organization ("ISO"). This platform utilizes a combination of our developed technologies and leading edge technology partners to increase our asset management and service capabilities for our end-user customers. These technologies include intelligent devices, advanced communication and security protocols, wireless and satellite communications and web-enabled data convergence. Finally, we have been exploring the "additive manufacturing" opportunities in our products and auxiliary systems.

None of these newly developed products or services required the investment of a material amount of our assets or was otherwise material.

EPD Customers

Our customer mix is diversified and includes leading EPC firms, original equipment manufacturers, distributors and end users. Our sales mix of original equipment products and aftermarket products and services diversifies our business and helps mitigate the impact of normal economic cycles on our business. Our sales are diversified among several industries, including oil and gas, power generation, chemical, water management and general industries.

EPD Competition

The pump and mechanical seal industry is highly fragmented, with hundreds of competitors. We compete, however, primarily with a limited number of large companies operating on a global scale. Competition among our closest competitors is generally driven by delivery times, expertise, price, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Some of our largest industry competitors include: Sulzer Pumps; Ebara Corp.; SPX Corp.; Eagle Burgmann, which is a joint venture of two traditional global seal manufacturers, A. W. Chesterton Co. and AES Corp.; John Crane Inc., a unit of Smiths Group Plc; and Weir Group Plc.

The pump and mechanical seal industry continues to undergo considerable consolidation, which is primarily driven by (i) the need to lower costs through reduction of excess capacity and (ii) customers' preference to align with global full service suppliers to simplify their supplier base. Despite the consolidation activity, the market remains highly competitive.

We believe that our strongest sources of competitive advantage rest with our extensive range of pumps for the oil and gas, chemical and power generation industries, our large installed base of products, our strong customer relationships, our more than 200 years of legacy experience in manufacturing and servicing pumping equipment, our reputation for providing quality engineering solutions and our ability to deliver engineered new seal product orders within 72 hours from the customer's request.

EPD Backlog

EPD's backlog of orders as of December 31, 2013 was \$1,311.4 million (including \$21.6 million of interdivision backlog, which is eliminated and not included in consolidated backlog), compared with \$1,400.3 million (including \$21.4 million of interdivision backlog) as of December 31, 2012. We expect to ship 81% of December 31, 2013

backlog during 2014.

9

INDUSTRIAL PRODUCT DIVISION

Through IPD we design, manufacture, distribute and service pre-configured engineered pumps and pump systems, including submersible motors, for industrial markets. Our globalized operating platform, low-cost sourcing and continuous improvement initiatives are essential aspects of this business. IPD's standardized, general purpose pump products are primarily utilized by the oil and gas, chemical, water management, power generation and general industries. Our products are currently manufactured in 13 manufacturing facilities, four of which are located in the U.S. and six in Europe. IPD operates 19 QRCs worldwide, including nine sites in Europe, four in the U.S., five in Asia Pacific and one in Latin America.

IPD Products

We manufacture approximately 40 different active types of pumps available in a wide range of metal alloys and non-metallics with a variety of configurations to meet the critical operating demands of our customers. Additionally, in the fourth quarter we acquired Innovative Mag-Drive, LLC ("Innomag"), a leader in the advanced sealless magnetic drive centrifugal pump technologies, which strengthens our offering to the chemical process industries. The following is a summary list of our IPD products and globally recognized brands:

IPD Pump Product Types

Overhung

- Chemical Process ANSI and ISO
- Industrial Process
- Slurry and Solids Handling

Specialty Products

- Molten Salt VTP Pump
- Submersible Pump
- Thruster
- Geothermal Deepwell
- Barge Pump

Positive Displacement

- Gear

IPD Brand Names

- Aldrich
- Durco
- IDP
- Innomag
- Pacific
- Pleuger
- Scienco

Between Bearings

- Single Case — Axially Split
- Single Case — Radially Split

Vertical

- Wet Pit
- Deep Well Submersible Motor
- Slurry and Solids Handling
- Sump

- Sier Bath
- TKL
- Western Land Roller
- Worthington
- Worthington-Simpson

IPD Services

We market our pump products through our worldwide sales force and our regional service and repair centers or through independent distributors and sales representatives. We provide an array of aftermarket services including product installation and commissioning services, spare parts, repairs, re-rate and upgrade solutions, advanced diagnostics and maintenance solutions through our global network of QRCs.

IPD New Product Development

Our IPD development projects target product feature enhancements, design improvements and sourcing opportunities that we believe will improve the competitive position of our industrial pump product lines. We will invest in our chemical product platform to expand and enhance our products offered to the global chemical industry. Our investment in a modern multistage ring

section design progressed through the year with advanced construction and prototype testing. The new design is expected to streamline our product portfolio.

We continue to address our core products with design enhancements to improve performance and the speed at which we can deliver our products. Successful new product release of permanent magnet motor technology in our submersible motor products demonstrated improved product efficiency. We will further our energy efficiency initiatives in response to various global governmental directives. Cost reduction projects incorporating product rationalization, value engineering, lean manufacturing and overhead reduction continue to be key drivers for IPD. None of these newly developed products or services required the investment of a material amount of our assets or was otherwise material.

IPD Customers

Our customer mix is diversified and includes leading EPC firms, original equipment manufacturers, distributors and end users. Our sales mix of original equipment products and aftermarket products and services diversifies our business and helps mitigate the impact of normal economic cycles on our business. Our sales are diversified among several industries, including oil and gas, chemical, water management, power generation and general industries.

IPD Competition

The industrial pump industry is highly fragmented, with many competitors. We compete, however, primarily with a limited number of large companies operating on a global scale. Competition among our closest competitors is generally driven by delivery times, expertise, price, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Some of our largest industry competitors include ITT Industries, KSB Inc. and Sulzer Pumps.

We believe that our strongest sources of competitive advantage rest with our extensive range of pumps for the chemical industry, our large installed base, our strong customer relationships, our more than 200 years of legacy experience in manufacturing and servicing pumping equipment and our reputation for providing quality engineering solutions.

IPD Backlog

IPD's backlog of orders as of December 31, 2013 was \$530.1 million (including \$30.0 million of interdivision backlog, which is eliminated and not included in consolidated backlog), compared with \$593.0 million (including \$40.7 million of interdivision backlog) as of December 31, 2012. We expect to ship 83% of December 31, 2013 backlog during 2014.

FLOW CONTROL DIVISION

FCD designs, manufactures, distributes and services a broad portfolio of industrial valve and automation solutions, including isolation and control valves, actuation, controls and related equipment. In addition, FCD offers energy management products such as steam traps, boiler controls and condensate and energy recovery systems. FCD leverages its experience and application know-how by offering a complete menu of engineering and project management services to complement its expansive product portfolio. FCD products are used to control, direct and manage the flow of liquids and gases and are an integral part of any flow control system. Our valve products are most often customized and engineered to perform specific functions within each customer's unique flow control environment.

Our flow control products are primarily used by companies operating in the chemical, power generation, oil and gas, water management and general industries. Our products are currently manufactured in 27 principal manufacturing facilities, five of which are located in the U.S., 14 of which are located in Europe and seven of which are located in Asia Pacific. FCD operates 33 QRCs worldwide.

FCD Products

Our valve, automation and controls product and solutions portfolio represents one of the most comprehensive in the flow control industry. Our products are used in a wide variety of applications, from general service to the most severe and demanding services, including those involving high levels of corrosion, extreme temperatures and/or pressures, zero fugitive emissions and emergency shutdown.

Our "smart" valve and diagnostic technologies integrate sensors, microprocessor controls and software into high performance integrated control valves, digital positioners and switchboxes for automated on/off valve assemblies and electric actuators. These technologies permit real-time system analysis, system warnings and remote indication of

asset health. These technologies have been developed in response to the growing demand for reduced maintenance, improved process control efficiency and digital

communications at the plant level. We are committed to further enhancing the quality of our product portfolio by continuing to upgrade our existing offerings with cutting-edge technologies.

Our valve automation products encompass a broad range of pneumatic, electric, hydraulic and stored energy actuation designs to take advantage of whatever power source the customer has available. FCD's actuation products can utilize the process fluid flowing through the pipeline as a source of power to actuate the valve. Our actuation products also cover one of the widest ranges of output torques in the industry, providing the ability to automate anything from the smallest linear globe valve to the largest multi-turn gate valve. Most importantly, FCD combines best-in-class mechanical designs with the latest in digital controls in order to provide complete integrated automation solutions that optimize the combined valve-actuator-controls package.

The following is a summary list of our generally available valve and automation products and globally recognized brands:

FCD Product Types

- | | |
|--|--|
| <ul style="list-style-type: none"> • Valve Automation Systems • Control Valves • Ball Valves • Gate Valves • Globe Valves • Check Valves • Butterfly Valves • Lined Plug Valves • Lined Ball Valves • Lubricated Plug Valves • Non-Lubricated Plug Valves • Integrated Valve Controllers • Diagnostic Software • Electro Pneumatic Positioners | <ul style="list-style-type: none"> • Digital Positioners • Pneumatic Positioners • Intelligent Positioners • Electric/Electronic Actuators • Pneumatic Actuators • Hydraulic Actuators • Diaphragm Actuators • Direct Gas and Gas-over-Oil Actuators • Limit Switches • Steam Traps • Condensate and Energy Recovery Systems • Boiler Controls • Digital Communications • Valve and Automation Repair Services |
|--|--|

FCD Brand Names

- | | |
|--|--|
| <ul style="list-style-type: none"> • Accord • Anchor/Darling • Argus • Atomac • Automax • Durco • Edward • Flowserve • Gestra • Kammer • Limitorque • McCANNA/MARPAC | <ul style="list-style-type: none"> • NAF • NAVAL • Noble Alloy • Norbro • Nordstrom • PMV • Serck Audco • Schmidt Armaturen • Valbart • Valtek • Vogt • Worcester Controls |
|--|--|

FCD Services

Our service personnel provide comprehensive equipment maintenance services for flow control systems, including advanced diagnostics, repair, installation, commissioning, retrofit programs and field machining capabilities. A large portion of our service work is performed on a quick response basis, which includes 24-hour service in all of our major markets. We also provide in-house repair and return manufacturing services worldwide through our manufacturing facilities. We believe our ability to offer comprehensive, quick turnaround services provides us with a unique competitive advantage and unparalleled access to our customers' installed base of flow control products.

FCD New Product Development

Our R&D investment is focused on areas that will advance our technological leadership and further differentiate our competitive advantage from a product perspective. Investment has been focused on significantly enhancing the digital integration and interoperability of valve top works (e.g., positioners, actuators, limit switches and associated accessories) with Distributed Control Systems ("DCS"). We continue to pursue the development and deployment of next-generation hardware and software for valve diagnostics and the integration of the resulting device intelligence through the DCS to provide a practical and effective asset management capability for the end user. In addition to developing these new capabilities and value-added services, our investments also include product portfolio expansion and fundamental research in material sciences in order to increase the temperature, pressure and corrosion/erosion-resistance limits of existing products, as well as noise and cavitation reduction. These investments are made by adding new resources and talent to the organization, as well as leveraging the experience of EPD and IPD and increasing our collaboration with third parties. We expect to continue our R&D investments in the areas discussed above.

None of these newly developed valve products or services required the investment of a material amount of our assets or was otherwise material.

FCD Customers

Our customer mix spans several markets, including the chemical, power generation, oil and gas, water management, pulp and paper, mining and other general industries. Our product mix includes original equipment and aftermarket parts and services. FCD contracts with a variety of customers, ranging from EPC firms, to distributors, end users and other original equipment manufacturers.

FCD Competition

While in recent years the valve market has undergone a significant amount of consolidation, the market remains highly fragmented. Some of the largest valve industry competitors include Pentair Ltd., Cameron International Corp., Emerson Electric Co., General Electric Co. and Crane Co.

Our market research and assessments indicate that the top 10 global valve manufacturers collectively comprise less than 25% of the total valve market. Based on independent industry sources, we believe that we are the fourth largest industrial valve supplier in the world. We believe that our strongest sources of competitive advantage rest with our comprehensive portfolio of valve products and services, our focus on execution and our expertise in severe corrosion and erosion applications.

FCD Backlog

FCD's backlog of orders as of December 31, 2013 was \$769.6 million, compared with \$723.9 million as of December 31, 2012. We expect to ship 87% of December 31, 2013 backlog during 2014.

AVAILABLE INFORMATION

We maintain an Internet web site at www.flowserve.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge through the "Investor Relations" section of our Internet web site as soon as reasonably practicable after we electronically file the reports with, or furnish the reports to, the U.S. Securities and Exchange Commission ("SEC").

Also available on our Internet web site are our Corporate Governance Guidelines for our Board of Directors and Code of Ethics and Business Conduct, as well as the charters of the Audit, Finance, Organization and Compensation and Corporate Governance and Nominating Committees of our Board of Directors and other important governance documents. All of the foregoing documents may be obtained through our Internet web site as noted above and are available in print without charge to shareholders who request them. Information contained on or available through our Internet web site is not incorporated into this Annual Report or any other document we file with, or furnish to, the SEC.

ITEM 1A. RISK FACTORS

Any of the events discussed as risk factors below may occur. If they do, our business, financial condition, results of operations and cash flows could be materially adversely affected. While we believe all known material risks are disclosed, additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also

impair our business operations. Because of these risk factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Our business depends on the levels of capital investment and maintenance expenditures by our customers, which in turn are affected by numerous factors, including the state of domestic and global economies, global energy demand, the cyclical nature of their markets, their liquidity and the condition of global credit and capital markets.

Demand for most of our products and services depends on the level of new capital investment and planned maintenance expenditures by our customers. The level of capital expenditures by our customers depends, in turn, on general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. Additionally, volatility in commodity prices can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. The ability of our customers to finance capital investment and maintenance may also be affected by factors independent of the conditions in their industries, such as the condition of global credit and capital markets.

The businesses of many of our customers, particularly oil and gas companies, chemical companies and general industrial companies, are to varying degrees cyclical and have experienced periodic downturns. Our customers in these industries, particularly those whose demand for our products and services is primarily profit-driven, historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. For example, our chemical customers generally tend to reduce their spending on capital investments and operate their facilities at lower levels in a soft economic environment, which reduces demand for our products and services. Additionally, fluctuating energy demand forecasts and lingering uncertainty concerning commodity pricing can cause our customers to be more conservative in their capital planning, which may reduce demand for our products and services. Reduced demand for our products and services could result in the delay or cancellation of existing orders or lead to excess manufacturing capacity, which unfavorably impacts our absorption of fixed manufacturing costs. This reduced demand may also erode average selling prices in our industry. Any of these results could adversely affect our business, financial condition, results of operations and cash flows.

Additionally, some of our customers may delay capital investment and maintenance even during favorable conditions in their industries or markets. Despite these favorable conditions, the general health of global credit and capital markets and our customers' ability to access such markets may impact investments in large capital projects, including necessary maintenance and upgrades. In addition, the liquidity and financial position of our customers could impact capital investment decisions and their ability to pay in full and/or on a timely basis. Any of these factors, whether individually or in the aggregate, could have a material adverse effect on our customers and, in turn, our business, financial condition, results of operations and cash flows.

Volatility in commodity prices, effects from credit and capital market disruptions and a sluggish global economic recovery could prompt customers to delay or cancel existing orders, which could adversely affect the viability of our backlog and could impede our ability to realize revenues on our backlog.

Our backlog represents the value of uncompleted customer orders. While we cannot be certain that reported backlog will be indicative of future results, our ability to accurately value our backlog can be adversely affected by numerous factors, including the health of our customers' businesses and their access to capital, volatility in commodity prices (e.g., copper, nickel, stainless steel) and economic uncertainty. While we attempt to mitigate the financial consequences of order delays and cancellations through contractual provisions and other means, if we were to experience a significant increase in order delays or cancellations that can result from the aforementioned economic conditions or other factors beyond our control, it could impede or delay our ability to realize anticipated revenues on our backlog. Such a loss of anticipated revenues could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may be unable to deliver our sizeable backlog on time, which could affect our revenues, future sales and profitability and our relationships with customers.

At December 31, 2013, backlog was \$2.6 billion. In 2014, our ability to meet customer delivery schedules for backlog is dependent on a number of factors including, but not limited to, sufficient manufacturing plant capacity, adequate supply channel access to the raw materials and other inventory required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects and appropriate planning and scheduling of manufacturing resources. Many of the contracts we enter into with our customers require long manufacturing lead times and contain penalty clauses related to on-time delivery. Failure to deliver in accordance with customer expectations could subject us to financial penalties, may result in damage to existing customer relationships and could

have a material adverse effect on our business, financial condition, results of operations and cash flows.

We sell our products in highly competitive markets, which results in pressure on our profit margins and limits our ability to maintain or increase the market share of our products.

The markets for our products and services are geographically diverse and highly competitive. We compete against large and well-established national and global companies, as well as regional and local companies, low-cost replicators of spare parts and in-house maintenance departments of our end-user customers. We compete based on price, technical expertise, timeliness of delivery, contractual terms, previous installation history and reputation for quality and reliability. Competitive environments in slow-growth industries and for original equipment orders have been inherently more influenced by pricing and domestic and global economic conditions and current economic forecasts suggest that the competitive influence of pricing has broadened. Additionally, some of our customers have been attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their supply chain. To remain competitive, we must invest in manufacturing, marketing, customer service and support and our distribution networks. No assurances can be made that we will have sufficient resources to continue to make the investment required to maintain or increase our market share or that our investments will be successful. If we do not compete successfully, our business, financial condition, results of operations and cash flows could be materially adversely affected.

If we are unable to obtain raw materials at favorable prices, our operating margins and results of operations may be adversely affected.

We purchase substantially all electric power and other raw materials we use in the manufacturing of our products from outside sources. The costs of these raw materials have been volatile historically and are influenced by factors that are outside our control. In recent years, the prices for energy, metal alloys, nickel and certain other of our raw materials have been volatile. While we strive to offset our increased costs through supply chain management, contractual provisions and our CIP initiative, where gains are achieved in operational efficiencies, our operating margins and results of operations and cash flows may be adversely affected if we are unable to pass increases in the costs of our raw materials on to our customers or operational efficiencies are not achieved.

Economic, political and other risks associated with international operations could adversely affect our business.

A substantial portion of our operations is conducted and located outside the U.S. We have manufacturing, sales or service facilities in more than 50 countries and sell to customers in over 90 countries, in addition to the U.S. Moreover, we primarily outsource certain of our manufacturing and engineering functions to, and source our raw materials and components from, China, Eastern Europe, India, Latin America and Mexico. Accordingly, our business and results of operations are subject to risks associated with doing business internationally, including:

- instability in a specific country's or region's political or economic conditions, particularly economic conditions in Europe, and political conditions in the Middle East, North Africa, Latin America and other emerging markets;
- trade protection measures, such as tariff increases, and import and export licensing and control requirements;
- potentially negative consequences from changes in tax laws or tax examinations;
- difficulty in staffing and managing widespread operations;
- increased aging and slower collection of receivables, particularly in Latin America and other emerging markets;
- difficulty of enforcing agreements through some foreign legal systems;
- differing and, in some cases, more stringent labor regulations;
- potentially negative consequences from fluctuations in foreign currency exchange rates;
- partial or total expropriation;
- differing protection of intellectual property;
- inability to repatriate income or capital; and
- difficulty in administering and enforcing corporate policies, which may be different than the customary business practices of local cultures.

For example, political unrest or work stoppages could negatively impact the demand for our products from customers in affected countries and other customers, such as U.S. oil refineries, that could be affected by the resulting disruption in the supply of crude oil. Similarly, military conflicts in the Middle East and North Africa could soften the level of capital investment and demand for our products and services.

In order to manage our day-to-day operations, we must overcome cultural and language barriers and assimilate different business practices. In addition, we are required to create compensation programs, employment policies and other administrative programs that comply with laws of multiple countries. We also must communicate and monitor standards and directives across our global network. Our failure to successfully manage our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with standards and procedures.

Our future success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these factors could, however, materially adversely affect our international operations and, consequently, our financial condition, results of operations and cash flows.

Our international operations and foreign subsidiaries are subject to a variety of complex and continually changing laws and regulations.

Due to the international scope of our operations, the system of laws and regulations to which we are subject is complex and includes, without limitation, regulations issued by the U.S. Customs and Border Protection, the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Treasury Department's Office of Foreign Assets Control and various foreign governmental agencies, including applicable export controls, customs, currency exchange control and transfer pricing regulations, as applicable. No assurances can be made that we will continue to be found to be operating in compliance with, or be able to detect violations of, any such laws or regulations. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

Our international operations expose us to fluctuations in foreign currency exchange rates.

A significant portion of our revenue and certain of our costs, assets and liabilities, are denominated in currencies other than the U.S. dollar. The primary currencies to which we have exposure are the Euro, British pound, Mexican peso, Brazilian real, Indian rupee, Japanese yen, Singapore dollar, Argentine peso, Canadian dollar, Australian dollar, Chinese yuan, Colombian peso, Chilean peso and South African rand. Certain of the foreign currencies to which we have exposure, such as the Venezuelan bolivar and Argentine peso, have undergone significant devaluation in the past, which can reduce the value of our local monetary assets, reduce the U.S. dollar value of our local cash flow, generate local currency losses that may impact our ability to pay future dividends from our subsidiary to the parent company and potentially reduce the U.S. dollar value of future local net income. Although we enter into forward exchange contracts to economically hedge some of our risks associated with transactions denominated in certain foreign currencies, no assurances can be made that exchange rate fluctuations will not adversely affect our financial condition, results of operations and cash flows.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws and regulations.

The U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws and regulations in other jurisdictions, such as the UK Bribery Act, generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business or securing an improper advantage. Because we operate in many parts of the world and sell to industries that have experienced corruption to some degree, our policies mandate compliance with applicable anti-bribery laws worldwide. If we are found to be in violation of the FCPA or other similar anti-bribery laws or regulations, whether due to our or others' actions or inadvertence, we could be subject to civil and criminal penalties or other sanctions that could have a material adverse impact on our business, financial condition, results of operations and cash flows. In addition, actual or alleged violations could damage our reputation or ability to do business.

Terrorist acts, conflicts and wars may materially adversely affect our business, financial condition and results of operations and may adversely affect the market for our common stock.

As a global company with a large international footprint, we are subject to increased risk of damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers or customers due to terrorist acts, conflicts and wars, wherever located around the world. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, such as the Israeli-Hamas conflict and ongoing instability in Syria and Egypt, have created many economic and political uncertainties. In addition, as a global company with headquarters and significant operations located in the U.S.,

actions against or by the U.S. may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and pose risks to our employees, resulting in the need to impose travel restrictions, any of which could adversely affect our business, financial condition, results of operations and cash flows.

Environmental compliance costs and liabilities could adversely affect our financial condition, results of operations and cash flows.

Our operations and properties are subject to regulation under environmental laws, which can impose substantial sanctions for violations. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all countries in which we operate.

We use hazardous substances and generate hazardous wastes in many of our manufacturing and foundry operations. Most of our current and former properties are or have been used for industrial purposes, and some may require clean-up of historical contamination. We are currently conducting investigation and/or remediation activities at a number of locations where we have known environmental concerns. In addition, we have been identified as one of many PRPs at five Superfund sites. The projected cost of remediation at these sites, as well as our alleged "fair share" allocation, while not anticipated to be material, has been reserved. However, until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved, some degree of uncertainty remains.

We have incurred, and expect to continue to incur, operating and capital costs to comply with environmental requirements. In addition, new laws and regulations, stricter enforcement of existing requirements, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities. Moreover, environmental and sustainability initiatives, practices, rules and regulations are under increasing scrutiny of both governmental and non-governmental bodies, which can cause rapid change in operational practices, standards and expectations and, in turn, increase our compliance costs. Any of these factors could have a material adverse effect on our financial condition, results of operations and cash flows.

We are party to asbestos-containing product litigation that could adversely affect our financial condition, results of operations and cash flows.

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and/or distributed by us. Such products were used as internal components of process equipment, and we do not believe that there was any significant emission of asbestos-containing fibers during the use of this equipment. Although we are defending these allegations vigorously and believe that a high percentage of these lawsuits are covered by insurance or indemnities from other companies, there can be no assurance that we will prevail or that payments made by insurance or such other companies would be adequate. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Our business may be adversely impacted by work stoppages and other labor matters.

As of December 31, 2013, we had approximately 18,000 employees, of which approximately 5,800 were located in the U.S. Approximately 7.5% of our U.S. employees are represented by unions. We also have unionized employees or employee work councils in Argentina, Australia, Austria, Brazil, Canada, Finland, France, Germany, Italy, Japan, Mexico, The Netherlands, Poland, Spain, Sweden and the U.K. No individual unionized facility produces more than 10% of our revenues. Although we believe that our relations with our employees are strong and we have not experienced any material strikes or work stoppages recently, no assurances can be made that we will not in the future experience these and other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor.

Inability to protect our intellectual property could negatively affect our competitive position.

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We cannot guarantee, however, that the steps we have taken to protect our intellectual property will be adequate to prevent infringement of our rights or misappropriation of our technology. For example, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some of the foreign countries in which we operate. In addition, while we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, such confidentiality agreements could be breached or otherwise may not provide meaningful protection for our trade secrets and know-how related to the design, manufacture or operation of our products. If it became necessary for us to resort to litigation to protect our

intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail. Further, adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows.

Significant changes in pension fund investment performance or assumptions changes may have a material effect on the valuation of our obligations under our defined benefit pension plans, the funded status of these plans and our pension expense.

We maintain defined benefit pension plans that are required to be funded in the U.S., India, Japan, Mexico, The Netherlands and the U.K., and defined benefit plans that are not required to be funded in Austria, France, Germany, Italy and Sweden. Our pension liability is materially affected by the discount rate used to measure our pension obligations and, in the case of the plans that are required to be funded, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets. A change in the discount rate can result in a significant increase or decrease in the valuation of pension obligations, affecting the reported status of our pension plans and our pension expense. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in increases and decreases in the valuation of plan assets or in a change of the expected rate of return on plan assets. This impact may be particularly prevalent where we maintain significant concentrations of specified investments, such as the U.K. equity and fixed income securities in our non-U.S. defined benefit plans. Changes in the expected return on plan assets assumption can result in significant changes in our pension expense and future funding requirements.

We continually review our funding policy related to our U.S. pension plan in accordance with applicable laws and regulations. U.S. regulations have increased the minimum level of funding for U.S. pension plans in prior years, which has at times required significant contributions to our pension plans. Contributions to our pension plans reduce the availability of our cash flows to fund working capital, capital expenditures, R&D efforts and other general corporate purposes.

We may incur material costs as a result of product liability and warranty claims, which could adversely affect our financial condition, results of operations and cash flows.

We may be exposed to product liability and warranty claims in the event that the use of one of our products results in, or is alleged to result in, bodily injury and/or property damage or our products actually or allegedly fail to perform as expected. While we maintain insurance coverage with respect to certain product liability claims, we may not be able to obtain such insurance on acceptable terms in the future, and any such insurance may not provide adequate coverage against product liability claims. In addition, product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a product liability claim could have an adverse effect on our business, financial condition, results of operations and cash flows. Even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and our company. Warranty claims are not generally covered by insurance, and we may incur significant warranty costs in the future for which we would not be reimbursed.

The recording of increased deferred tax asset valuation allowances in the future or the impact of tax law changes on such deferred tax assets could affect our operating results.

We currently have significant net deferred tax assets resulting from tax credit carryforwards, net operating losses and other deductible temporary differences that are available to reduce taxable income in future periods. Based on our assessment of our deferred tax assets, we determined, based on projected future income and certain available tax planning strategies, that approximately \$239 million of our deferred tax assets will more likely than not be realized in the future, and no valuation allowance is currently required for this portion of our deferred tax assets. Should we determine in the future that these assets will not be realized we will be required to record an additional valuation allowance in connection with these deferred tax assets and our operating results would be adversely affected in the period such determination is made. In addition, tax law changes could negatively impact our deferred tax assets. Our outstanding indebtedness and the restrictive covenants in the agreements governing our indebtedness limit our operating and financial flexibility.

We are required to make scheduled repayments and, under certain events of default, mandatory repayments on our outstanding indebtedness, which may require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, R&D efforts and other general corporate purposes, such as dividend payments and share repurchases, and could generally limit our flexibility in planning for, or reacting to, changes in our business and industry.

In addition, the agreements governing our indebtedness impose certain operating and financial restrictions on us and somewhat limit management's discretion in operating our businesses. These agreements limit or restrict our ability, among other things, to: incur additional debt; pay dividends and make other distributions; prepay subordinated debt; make investments and other restricted payments; create liens; sell assets; and enter into transactions with affiliates.

We are also required to comply with leverage and interest coverage financial covenants and deliver to our lenders audited annual and unaudited quarterly financial statements. Our ability to comply with these covenants may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default which, if not cured or waived, may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to continue to expand our market presence through acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs.

Since 1997, we have expanded through a number of acquisitions, and we may pursue strategic acquisitions of businesses in the future. Our ability to implement this growth strategy will be limited by our ability to identify appropriate acquisition candidates, covenants in our credit agreement and other debt agreements and our financial resources, including available cash and borrowing capacity. Acquisitions may require additional debt financing, resulting in higher leverage and an increase in interest expense. In addition, acquisitions may require large one-time charges and can result in the incurrence of contingent liabilities, adverse tax consequences, substantial depreciation or deferred compensation charges, the amortization of identifiable purchased intangible assets or impairment of goodwill, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Should we acquire another business, the process of integrating acquired operations into our existing operations may create operating difficulties and may require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the more common challenges associated with acquisitions that we may experience include:

- loss of key employees or customers of the acquired company;
- conforming the acquired company's standards, processes, procedures and controls, including accounting systems and controls, with our operations, which could cause deficiencies related to our internal control over financial reporting;
- coordinating operations that are increased in scope, geographic diversity and complexity;
- retooling and reprogramming of equipment;
- hiring additional management and other critical personnel; and
- the diversion of management's attention from our day-to-day operations.

Further, no guarantees can be made that we would realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to timely address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected.

Forward-Looking Information is Subject to Risk and Uncertainty

This Annual Report and other written reports and oral statements we make from time-to-time include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Annual Report regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, market conditions and indebtedness covenant compliance are forward-looking statements. In some cases forward looking statements can be identified by terms such as "may," "should," "expects," "could," "intends," "projects," "predicts," "plans," "anticipates," "estimates," "believes," "forecasts" or other comparable terminology. These statements are not historical facts or guarantees of future performance, but instead are based on current expectations and are subject to significant risks, uncertainties and other factors, many of which are outside of our control.

We have identified factors that could cause actual plans or results to differ materially from those included in any forward-looking statements. These factors include those described above under this "Risk Factors" heading, or as may be identified in our other SEC filings from time to time. These uncertainties are beyond our ability to control, and in many cases, it is not possible to foresee or identify all the factors that may affect our future performance or any forward-looking information, and new risk factors can emerge from time to time. Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

All forward-looking statements included in this Annual Report are based on information available to us on the date of this Annual Report and the risk that actual results will differ materially from expectations expressed in this report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement, whether as a result of new information, future events, changes in our expectations or otherwise. This discussion is

provided as permitted by the Private Securities Litigation Reform Act of 1995 and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices, including our global headquarters, are located at 5215 N. O'Connor Boulevard, Suite 2300, Irving, Texas 75039. Our global headquarters is a leased facility, which we began to occupy on January 1, 2004. In September 2011, we extended our original lease term an additional 10 years to December 31, 2023. We have the option to renew the current lease for two additional five-year periods. We currently occupy 125,000 square feet at this facility.

Our major manufacturing facilities (those with 50,000 or more square feet of manufacturing capacity) operating at December 31, 2013 are presented in the table below. See "Item 1. Business" in this Annual Report for further information with respect to all of our manufacturing and operational facilities, including QRCs.

	Number of Facilities	Approximate Square Footage
EPD		
U.S.	4	725,000
Non-U.S.	14	2,361,000
IPD		
U.S.	4	593,000
Non-U.S.	6	1,529,000
FCD		
U.S.	5	1,027,000
Non-U.S.	13	1,762,000

We own the majority of our manufacturing facilities, and those manufacturing facilities we do not own are leased. We also maintain a substantial network of U.S. and foreign service centers and sales offices, most of which are leased. The majority of our manufacturing leased facilities are covered by lease agreements with terms ranging from two to seven years, with individual lease terms generally varying based on the facilities' primary usage. We believe we will be able to extend leases on our various facilities as necessary, as they expire.

We believe that our current facilities are adequate to meet the requirements of our present and foreseeable future operations. We continue to review our capacity requirements as part of our strategy to optimize our global manufacturing efficiency. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for additional information regarding our operating lease obligations.

ITEM 3. LEGAL PROCEEDINGS

We are party to the legal proceedings that are described in Note 13 to our consolidated financial statements included in Item 8 of this Annual Report, and such disclosure is incorporated by reference into this Item 3. In addition to the foregoing, we and our subsidiaries are named defendants in certain other routine lawsuits incidental to our business and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect these matters, either individually or in the aggregate, to have a material effect on our financial position, results of operations or cash flows. We have established

reserves covering exposures relating to contingencies to the extent believed to be reasonably estimable and probable based on past experience and available facts.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

20

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Dividends

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "FLS." On February 12, 2014, our records showed 1,557 shareholders of record. The following table sets forth the range of high and low prices per share of our common stock as reported by the NYSE for the periods indicated.

PRICE RANGE OF FLOWSERVE COMMON STOCK

(Intraday High/Low Prices)

	2013	2012
First Quarter	\$56.51/\$49.99	\$40.82/\$33.63
Second Quarter	57.76/50.00	39.86/32.80
Third Quarter	63.70/53.96	45.19/35.30
Fourth Quarter	78.89/55.98	49.03/42.28

The table below presents declaration, record and payment dates, as well as the per share amounts, of dividends on our common stock during 2013 and 2012:

Declaration Date	Record Date	Payment Date	Dividend Per Share
November 21, 2013	December 27, 2013	January 10, 2014	\$0.14
August 15, 2013	September 27, 2013	October 11, 2013	0.14
May 23, 2013	July 2, 2013	July 12, 2013	0.14
February 21, 2013	March 28, 2013	April 12, 2013	0.14

Declaration Date	Record Date	Payment Date	Dividend Per Share
November 15, 2012	December 31, 2012	January 14, 2013	\$0.12
August 15, 2012	September 28, 2012	October 12, 2012	0.12
May 17, 2012	June 30, 2012	July 13, 2012	0.12
February 21, 2012	March 30, 2012	April 13, 2012	0.12

On May 23, 2013, our certificate of incorporation was amended to increase the number of authorized shares of common stock from 120.0 million to 305.0 million and enable a three-for-one stock split approved by the Board of Directors on February 7, 2013 in the form of a 200% common stock dividend. The record date for the stock split was June 7, 2013, and additional shares were distributed on June 21, 2013. Shareholders' equity and all share data, including treasury shares and stock-based compensation award shares, and per share data presented herein have been retrospectively adjusted to reflect the impact of the increase in authorized shares and the stock split, as appropriate.

On February 20, 2012, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.11 per share to \$0.12 per share payable beginning on April 13, 2012. On February 19, 2013, our Board of Directors authorized an increase in the payment of dividends on our common stock from \$0.12 per share to \$0.14 per share payable quarterly beginning on April 12, 2013. Any subsequent dividends will be reviewed by our Board of Directors on a quarterly basis and declared at its discretion dependent on its assessment of our financial situation and business outlook at the applicable time. Our credit facilities contain covenants that could restrict our ability to declare and pay dividends on our common stock. See the discussion of our credit facilities under Item 7 of this Annual Report and in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report.

Issuer Purchases of Equity Securities

Note 15 to our consolidated financial statements included in Item 8 of this Annual Report includes a discussion of our share repurchase activity and payment of quarterly dividends on our common stock.

During the quarter ended December 31, 2013, we repurchased a total of 1,266,343 shares of our common stock for \$88.2 million (representing \$69.64 per share) under our current share repurchase program. The following table sets forth the repurchase data for each of the three months during the quarter ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Plan (In millions)
October 1 - 31	315,046	\$62.37	315,046	\$452.9
November 1 - 30	212,088	(1) 70.42	209,600	438.2
December 1 - 31	741,697	72.49	741,697	384.4
Total	1,268,831	\$69.64	1,266,343	

(1) Includes 2,295 shares of common stock purchased at a price of \$69.20 per share by a rabbi trust that we maintain for non-employee directors who elect to defer their quarterly compensation for payment at a later date in the form of common stock. Also, includes a total of 193 shares that were tendered by employees to satisfy minimum tax withholding amounts for restricted stock awards at an average price per share of \$70.54.

Stock Performance Graph

The following graph depicts the most recent five-year performance of our common stock with the S&P 500 Index and S&P 500 Industrial Machinery. The graph assumes an investment of \$100 on December 31, 2008, and assumes the reinvestment of any dividends over the following five years. The stock price performance shown in the graph is not necessarily indicative of future price performance.

Company/Index	Base Period 2008	December 31,				
		2009	2010	2011	2012	2013
Flowserve Corporation	\$100.00	\$186.09	\$237.32	\$200.28	\$299.49	\$486.93
S&P 500 Index	100.00	126.45	145.49	148.55	172.30	228.09
S&P 500 Industrial Machinery	100.00	139.72	189.94	172.30	219.66	320.28

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,									
	2013(a)		2012		2011(b)		2010(c)		2009(d)	
	(Amounts in thousands, except per share data and ratios)									
RESULTS OF OPERATIONS										
Sales	\$4,954,619		\$4,751,339		\$4,510,201		\$4,032,036		\$4,365,262	
Gross profit	1,688,095		1,580,951		1,513,646		1,409,693		1,548,132	
Selling, general and administrative expense	(966,829)		(922,125)		(914,080)		(844,990)		(934,451)	
Operating income	760,283		675,778		618,677		581,352		629,517	
Interest expense	(54,413)		(43,520)		(36,181)		(34,301)		(40,005)	
Provision for income taxes	(204,701)		(160,766)		(158,524)		(141,596)		(156,460)	
Net earnings attributable to Flowserve Corporation	485,530		448,339		428,582		388,290		427,887	
Net earnings per share of Flowserve Corporation common shareholders (diluted)(e)	3.41		2.84		2.55		2.29		2.53	
Cash flows from operating activities	487,759		517,130		218,213		355,775		431,277	
Cash dividends declared per share	0.56		0.48		0.43		0.39		0.36	
FINANCIAL CONDITION										
Working capital	\$1,289,283		\$1,149,591		\$1,158,033		\$1,067,369		\$1,041,239	
Total assets	5,036,733		4,810,958		4,622,614		4,459,910		4,248,894	
Total debt	1,200,297		928,594		505,216		527,711		566,728	
Retirement obligations and other liabilities	473,894		456,742		422,470		414,272		449,691	
Total equity	1,877,121		1,894,475		2,278,230		2,113,033		1,801,747	
FINANCIAL RATIOS										
Return on average net assets(f)	17.1	%	16.5	%	16.9	%	17.7	%	22.0	%
Net debt to net capital ratio(g)	30.8	%	24.8	%	6.9	%	-1.4	%	-5.1	%

(a) Results of operations in 2013 include costs of \$10.7 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$7.6 million.

(b) Results of operations in 2011 include costs of \$11.9 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$8.8 million.

(c) Results of operations in 2010 include costs of \$18.3 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$13.4 million.

(d) Results of operations in 2009 include costs of \$68.1 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$49.8 million.

Retrospective adjustments were made to prior period information to conform to current period presentation. These retrospective adjustments resulted from our adoption of guidance related to the two-class method of calculating (e) earnings per share under ASC 260, "Earnings Per Share," which was effective January 1, 2009, and the three-for-one stock split discussed in Note 15 to our consolidated financial statements included in Item 8 of this Annual Report.

(f) Calculated as adjusted net income divided by adjusted net assets, where adjusted net income is the sum of earnings before income taxes plus interest expense multiplied by one minus our effective tax rate and adjusted net assets is the average of beginning of year and end of year net assets, excluding cash and cash equivalents and debt due in one year.

Calculated as total debt minus cash and cash equivalents divided by the sum of total debt and shareholders' equity (g) minus cash and cash equivalents. Cash and cash equivalents exceeded total debt by \$29.9 million and \$87.6 million at December 31, 2010 and 2009, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the accompanying consolidated financial statements and notes. See "Item 1A. Risk Factors" and the "Forward-Looking Statements" included in this Annual Report on Form 10-K for the year ended December 31, 2013 ("Annual Report") for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated.

EXECUTIVE OVERVIEW

Our Company

We believe that we are a world-leading manufacturer and aftermarket service provider of comprehensive flow control systems. We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. We currently employ approximately 18,000 employees in more than 50 countries.

Our business model is significantly influenced by the capital spending of global infrastructure industries for the placement of new products into service and aftermarket services for existing operations. The worldwide installed base of our products is an important source of aftermarket revenue, where products are expected to ensure the maximum operating time of many key industrial processes. Over the past several years, we have significantly invested in our aftermarket strategy to provide local support to drive customer investments in our offerings and use of our services to replace or repair installed products. The aftermarket portion of our business also helps provide business stability during various economic periods. The aftermarket business, which is served by our network of 175 QRCs located around the globe, provides a variety of service offerings for our customers including spare parts, service solutions, product life cycle solutions and other value-added services. It is generally a higher margin business compared to our original equipment business and a key component of our profitable growth strategy.

Our operations are conducted through three business segments that are referenced throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"):

- Engineered Product Division ("EPD") for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

- Industrial Product Division ("IPD") for pre-configured engineered pumps and pump systems and related products and services; and

- Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our business segments share a focus on industrial flow control technology and have a high number of common customers. These segments also have complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. Our segments also benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. For example, our segment leadership reports to our Chief Operating Officer ("COO"), and the segments share leadership for operational support functions such as research and development, marketing and supply chain.

The reputation of our product portfolio is built on more than 50 well-respected brand names such as Worthington, IDP, Valtek, Limitorque, Durco, Edward, Anchor/Darling and Durametallc, which we believe to be one of the most comprehensive in the industry. Our products and services are sold either directly or through designated channels to more than 10,000 companies, including some of the world's leading engineering, procurement and construction ("EPC") firms, original equipment manufacturers, distributors and end users.

We continue to build on our geographic breadth through our QRC network with the goal to be positioned as near to customers as possible for service and support in order to capture valuable aftermarket business. Along with ensuring that we have the local capability to sell, install and service our equipment in remote regions, it is equally imperative to

continuously improve our global operations. We continue to expand our global supply chain capability to meet global customer demands and ensure the quality and timely delivery of our products. We continue to devote resources to improving the supply chain processes across our business segments to find areas of synergy and cost reduction and to improve our supply chain management capability to ensure it can meet

global customer demands. We also remain focused on improving on-time delivery and quality, while managing warranty costs as a percentage of sales across our global operations, through the assistance of a focused Continuous Improvement Process ("CIP") initiative. The goal of the CIP initiative, which includes lean manufacturing, six sigma business management strategy and value engineering, is to maximize service fulfillment to customers through on-time delivery, reduced cycle time and quality at the highest internal productivity.

We experienced improved bookings in 2013 as the chemical, oil and gas and general industries saw increased activity despite an environment of continued global macroeconomic uncertainty. The growth in the chemical industry was driven by Asia Pacific countries investing in their chemical processing capabilities and North America producers investing to utilize natural gas as a low-cost feedstock. We experienced a modest increase in bookings into Europe, as economic conditions in the region stabilized. In the power generation industry, we experienced a stable level of investment during 2013 due to low levels of economic growth and continued uncertainty related to environmental regulations.

In 2013, continued favorable conditions in our aftermarket business were driven by our customers' need to maintain continuing operations across several industries and the expansion of our aftermarket capabilities through our integrated solutions offerings. Our pursuit of major capital projects globally and our investments in localized customer service remain key components of our long-term growth strategy, and also provide stability during various economic periods. We believe that our commitment to localize service support capabilities close to our customers' operations through our QRC network has enabled us to grow our market share in the aftermarket portion of our business.

We believe that with our customer relationships, global presence and highly-regarded technical capabilities, we will continue to have opportunities in our core industries; however, we face ongoing challenges affecting many companies in our industry with a significant multinational presence, such as economic, political, currency and other risks.

Our Markets

The following discussion should be read in conjunction with the "Outlook for 2014" section included below in this MD&A.

Our products and services are used in several distinct industries: oil and gas, chemical, power generation, water management, and a number of other industries that are collectively referred to as "general industries."

Demand for most of our products depends on the level of new capital investment and planned and unplanned maintenance expenditures by our customers. The level of new capital investment depends, in turn, on capital infrastructure projects driven by the need for oil and gas, power generation and water management, as well as general economic conditions. These drivers are generally related to the phase of the business cycle in their respective industries and the expectations of future market behavior. The levels of maintenance expenditures are additionally driven by the reliability of equipment, planned and unplanned downtime for maintenance and the required capacity utilization of the process.

Sales to EPC firms and original equipment manufacturers are typically for large project orders and critical applications, as are certain sales to distributors. Project orders are typically procured for customers either directly from us or indirectly through contractors for new construction projects or facility enhancement projects.

The quick turnaround business, which we also refer to as "short-cycle," is defined as orders that are received from the customer (booked) and shipped generally within three months of receipt. These orders are typically for more standardized, general purpose products, parts or services. Each of our three business segments generate certain levels of this type of business.

In the sale of aftermarket products and services, we benefit from a large installed base of our original equipment, which requires periodic maintenance, repair and replacement parts. We use our manufacturing platform and global network of QRCs to offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. In geographic regions where we are positioned to provide quick response, we believe customers have traditionally relied on us, rather than our competitors, for aftermarket products due to our highly engineered and customized products. However, the aftermarket for standard products is competitive, as the existence of common standards allows for easier replacement of the installed products. As proximity of service centers, timeliness of delivery and quality are important considerations for all aftermarket products and services, we continue to selectively expand our global QRC network to improve our ability to capture this important aftermarket business.

Oil and Gas

The oil and gas industry, which represented approximately 41% of our bookings in both 2013 and 2012, experienced an increased level of capital spending in 2013 compared to the previous year due to the need to continue building infrastructure to bring future capacity on line to meet future demand expectations. The majority of investment by the major oil companies continued to focus on upstream production activities; however, there were improved levels of spending in both mid-stream pipeline and downstream refining operations, particularly in the developing markets. Refining overcapacity remained a concern throughout

the year in the mature regions, as overall demand for oil remained volatile throughout the year. Aftermarket opportunities in this industry improved throughout the year in spite of deferred North American refinery maintenance activity. Our integrated solutions offering helped to offset a reduction in service-related business, as many refineries performed this work with their own personnel.

The outlook for the oil and gas industry is heavily dependent on the demand growth from both mature markets and developing geographies. We believe oil and gas companies will continue with upstream and downstream investment plans that are in line with projections of future demand growth and the production declines of existing operations. A projected decline in demand could cause oil and gas companies to reduce their overall level of spending, which could decrease demand for our products and services. However, we believe the long-term fundamentals for this industry remain solid based on current supply, projected depletion rates of existing fields and forecasted long-term demand growth. With our long-standing reputation in providing successful solutions for upstream, mid-stream and downstream applications, along with the advancements in our portfolio of offerings, we believe that we continue to be well-positioned to pursue the global opportunities in this industry.

Chemical

The chemical industry represented approximately 20% and 19% of our bookings in 2013 and 2012, respectively. Capital spending in the chemical industry increased in 2013 with the expansion of existing facilities and the approval of new projects around the world. The Middle East and Asia have seen significant growth in chemical projects as countries in those regions try to access the higher margins available downstream in the petrochemical markets. Additionally, North America has seen a revival in the chemical industry, where shale gas has changed the economics of production allowing for a lower cost abundant feedstock to drive high value chemical projects. The aftermarket opportunities improved for the majority of the year with indications that the improvements will continue into 2014. Despite a strong year, the outlook for the chemical industry remains heavily dependent on global economic conditions. As global economies stabilize and unemployment conditions improve, a rise in consumer spending should follow. An increase in spending would drive greater demand for chemical-based products supporting improved levels of capital investment. We believe the chemical industry in the near-term will continue to invest in maintenance and upgrades for optimization of existing assets and that developing regions will continue investing in capital infrastructure to meet current and future indigenous demand. We believe our global presence and our localized aftermarket capabilities are well-positioned to serve the potential growth opportunities in this industry.

Power Generation

The power generation industry represented approximately 13% and 14% of our bookings in 2013 and 2012, respectively. In 2013, the power generation industry continued to experience some softness in capital spending in the mature regions driven by the uncertainty related to environmental regulations, as well as potential regulatory impacts to the overall civilian nuclear market. In the developing regions, capital investment remained in place driven by increased demand forecasts for electricity in countries such as China and India. Global concerns about the environment continue to support an increase in desired future capacity from renewable energy sources. The majority of the active and planned construction throughout 2013 continued to utilize designs based on fossil fuels. Natural gas increased its percentage of utilization driven by market prices for gas remaining low and relatively stable. With the potential of unconventional sources of gas, such as shale gas, the power generation industry is forecasting an increased use of this form of fuel for power generation plants.

We believe the outlook for the power generation industry remains favorable. Current legislative efforts to limit the emissions of carbon dioxide may have an adverse effect on investment plans depending on the potential requirements imposed and the timing of compliance by country. However, we believe that proposed methods of limiting carbon dioxide emissions offer business opportunities for our products and services. We believe the long-term fundamentals for the power generation industry remain solid based on projected increases in demand for electricity driven by global population growth, advancements of industrialization and growth of urbanization in developing markets. We also believe that our long-standing reputation in the power generation industry, our portfolio of offerings for the various generating methods, our advancements in serving the renewable energy market and carbon capture methodologies, as well as our global service and support structure, position us well for the future opportunities in this important industry.

Water Management

The water management industry represented approximately 4% our bookings in both 2013 and 2012. Although the water management industry displayed weakness in spending levels in 2013 as projects continued to be delayed, worldwide demand for fresh water and water treatment continues to create requirements for new facilities or for upgrades of existing systems, many of which require products that we offer, particularly pumps. The proportion of people living in regions that find it difficult to meet water requirements is expected to double by 2025. We believe that the persistent demand for fresh water during all economic cycles supports continued investments.

General Industries

General industries represented, in the aggregate, approximately 22% of our bookings in both 2013 and 2012. General industries comprises a variety of different businesses, including mining and ore processing, pharmaceuticals, pulp and paper, food and beverage and other smaller applications, none of which individually represented more than 5% of total bookings in 2013 and 2012. General industries also includes sales to distributors, whose end customers operate in the industries we primarily serve.

The outlook for this group of industries is heavily dependent upon the condition of global economies and consumer confidence levels. The long-term fundamentals of many of these industries remain sound, as many of the products produced by these industries are common staples of industrialized and urbanized economies. We believe that our specialty product offerings designed for these industries and our aftermarket service capabilities will provide continued business opportunities.

OUR RESULTS OF OPERATIONS

Throughout this discussion of our results of operations, we discuss the impact of fluctuations in foreign currency exchange rates. We have calculated currency effects by translating current year results on a monthly basis at prior year exchange rates for the same periods.

Effective December 10, 2013, we acquired for inclusion in Industrial Product Division ("IPD"), Innovative Mag-Drive, LLC ("Innomag"), a privately-owned, United States ("U.S.") based company specializing in advanced sealless magnetic drive centrifugal pumps in the chemical and general industries. Effective March 28, 2013, we and our joint venture partner agreed to exit our joint venture, Audco India, Limited ("AIL"), which manufactures integrated industrial valves in India. To effect the exit Flow Control Division ("FCD") acquired 100% ownership of AIL's plug valve manufacturing business in an asset purchase and sold its 50% equity interest in AIL to the joint venture partner. Effective October 28, 2011 we acquired for inclusion in EPD, Lawrence Pumps, Inc. ("LPI"), a privately-owned, U.S.-based company specializing in the design, development and manufacture of engineered centrifugal slurry pumps for critical services within the petroleum refining, petrochemical, pulp and paper and energy markets. The results of operations of Innomag, AIL and LPI have been consolidated since the applicable acquisition dates. No pro forma information has been provided for these acquisitions due to immateriality. Note 2 to our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" ("Item 8") of this Annual Report discusses the details of these acquisitions and the exit of the joint venture.

In the fourth quarter of 2013, we initiated a realignment program that is discussed in Note 20 to our consolidated financial statements included in Item 8 of this Annual Report. We currently expect total realignment program charges to be \$15.8 million for approved plans, of which \$10.7 million has been incurred through December 31, 2013. Upon completion of our realignment program, we expect annual run rate savings of approximately \$10 million. Actual savings realized could vary from expected savings, which represent management's best estimate to date.

The following discussion should be read in conjunction with the "Outlook for 2014" section included in this MD&A. Bookings and Backlog

	2013	2012	2011
	(Amounts in millions)		
Bookings	\$4,881.4	\$4,713.5	\$4,661.9
Backlog (at period end)	2,556.9	2,648.9	2,690.1

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer in regards to the manufacture, delivery, and/or support of products or the delivery of service. Bookings recorded and subsequently canceled within the same fiscal period are excluded from bookings. Bookings in 2013 increased by \$167.9 million, or 3.6%, as compared with 2012. The increase included negative currency effects of approximately \$30 million. The increase was primarily driven by the oil and gas, chemical and general industries. The increase was more heavily weighted toward original equipment bookings.

Bookings in 2012 increased by \$51.6 million, or 1.1%, as compared with 2011. The increase included negative currency effects of approximately \$204 million. The increase was primarily driven by the oil and gas and chemical

industries, partially offset by declines in the power generation industry. The increase was more heavily weighted toward aftermarket bookings. The increase included the 2012 impact of IPD orders in excess of \$90 million to supply offshore oil and gas platform equipment over the next five years and an order in 2011 in excess of \$80 million to supply a variety of pumps for a refinery that did not recur in 2012.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of \$2.6 billion at December 31, 2013 decreased by \$92.0 million, or 3.5%, as compared with December 31, 2012. Currency effects provided a decrease of approximately \$8 million (currency effects on backlog are calculated using the change in period end exchange rates). Approximately 24% of backlog at December 31, 2013 and 2012 was related to aftermarket orders. Backlog of \$2.6 billion at December 31, 2012 decreased by \$41.2 million, or 1.5%, as compared with December 31, 2011. Currency effects provided an increase of approximately \$22 million.

Sales

	2013	2012	2011
	(Amounts in millions)		
Sales	\$4,954.6	\$4,751.3	\$4,510.2

Sales in 2013 increased by \$203.3 million, or 4.3%, as compared with 2012. The increase included negative currency effects of approximately \$33 million. The increase was primarily due to increased original equipment sales and was driven by increased sales into North America, Asia Pacific, Latin America and Africa, and were partially offset by a decrease into the Middle East.

Sales in 2012 increased by \$241.1 million, or 5.3%, as compared with 2011. The increase included negative currency effects of approximately \$204 million. The increase was more heavily weighted toward original equipment sales and was driven by customer sales into North America, Asia Pacific and the Middle East, partially offset by a decrease in customer sales into Europe.

Sales to international customers, including export sales from the U.S., were approximately 71% of sales in both 2013 and 2012, and 73% in 2011. Sales to Europe, the Middle East and Africa ("EMA") were approximately 35%, 37% and 39% of total sales in 2013, 2012 and 2011, respectively. Sales to Asia Pacific were approximately 20% of total sales in both 2013 and 2012 and 19% of total sales in 2011. Sales to Latin America were approximately 11% in 2013 and 10% in both 2012 and 2011.

Gross Profit and Gross Profit Margin

	2013	2012	2011
	(Amounts in millions, except percentages)		
Gross profit	\$1,688.1	\$1,581.0	\$1,513.6
Gross profit margin	34.1	% 33.3	% 33.6

Gross profit in 2013 increased by \$107.1 million, or 6.8%, as compared with 2012. Gross profit margin in 2013 of 34.1% increased from 33.3% in 2012. The increase was primarily attributable to our execution of operational improvements and disciplined selectivity of customer bookings. Aftermarket sales decreased to approximately 40% of total sales, as compared with approximately 41% of total sales for the same period in 2012.

Gross profit in 2012 increased by \$67.4 million, or 4.5%, as compared with 2011. Gross profit margin in 2012 of 33.3% decreased from 33.6% in 2011. The decrease was primarily attributed to the larger effect on revenue of certain large, lower margin projects that shipped from backlog as compared with the same period in 2011, partially offset by the effects of operational execution improvements. Aftermarket sales of approximately 41% of total sales were consistent with the same period in 2011.

Selling, General and Administrative Expense ("SG&A")

	2013	2012	2011
	(Amounts in millions, except percentages)		
SG&A	\$966.8	\$922.1	\$914.1
SG&A as a percentage of sales	19.5	% 19.4	% 20.3

SG&A in 2013 increased by \$44.7 million, or 4.8%, as compared with 2012. Currency effects yielded a decrease of approximately \$5 million. The increase was primarily attributable to the 2012 gains noted below that did not recur in 2013, increased selling-related expenses to support higher sales, and to a lesser extent, charges associated with the 2013 realignment program. SG&A as a percentage of sales for the twelve months ended December 31, 2013 increased

10 basis points as compared with the same period in 2012. A \$10.4 million gain from the sale of our manufacturing facility in Brazil and a gain from certain legal matters, both in 2012, and neither of which recurred in 2013, were substantially offset by the favorable impact of improved SG&A leverage and continued focus on cost containment in 2013.

SG&A in 2012 increased by \$8.0 million, or 0.9%, as compared with 2011. The increase included currency effects that yielded an decrease of approximately \$28 million. Selling-related expenses and broad-based annual incentive compensation expenses primarily contributed to the increase. These increases were partially offset by a \$10.4 million gain in EPD during the first quarter of 2012 from the sale of our manufacturing facility in Rio de Janeiro, Brazil, in preparation for opening a new manufacturing facility in 2013. SG&A as a percentage of sales in 2012 improved 90 basis points as compared with 2011, due in part to a continued focus on cost management.

Net Earnings from Affiliates

	2013	2012	2011
	(Amounts in millions)		
Net earnings from affiliates	\$39.0	\$17.0	\$19.1

Net earnings from affiliates represents our net income from investments in seven joint ventures (one located in each of Japan, Saudi Arabia, South Korea, the United Arab Emirates, and India and two in China) that are accounted for using the equity method of accounting. Net earnings from affiliates increased primarily as a result of the AIL transactions, which resulted in total pre-tax gains of \$28.3 million recorded in net earnings from affiliates in 2013. Net earnings from affiliates in 2012 decreased by \$2.1 million, or 11.0%, as compared with 2011, primarily due to decreased earnings of our FCD joint venture in India.

Operating Income

	2013	2012	2011
	(Amounts in millions, except percentages)		
Operating income	\$760.3	\$675.8	\$618.7
Operating income as a percentage of sales	15.3	% 14.2	% 13.7

Operating income in 2013 increased by \$84.5 million, or 12.5%, as compared with 2012. The increase included negative currency effects of approximately \$12 million. The increase was primarily a result of the \$107.1 million increase in gross profit and \$28.3 million in gains from our transactions concerning the AIL joint venture discussed above, partially offset by the \$44.7 million increase in SG&A discussed above. The improvement in operating income as a percentage of sales was primarily due to the improvement in gross profit margin.

Operating income in 2012 increased by \$57.1 million, or 9.2%, as compared with 2011. The increase included negative currency effects of approximately \$36 million. The overall net increase was primarily a result of the \$67.4 million increase in gross profit. The improvement in operating income as a percentage of sales was primarily due to SG&A as a percentage of sales decreasing to 19.4% from 20.3% for the same period in 2011, partially offset by the slight decrease in gross profit margin.

Interest Expense and Interest Income

	2013	2012	2011
	(Amounts in millions)		
Interest expense	\$(54.4)	\$(43.5)	\$(36.2)
Interest income	1.4	1.0	1.6

Interest expense in 2013 increased by \$10.9 million as compared with 2012. The increase was primarily attributable to interest expense associated with the senior notes issued in the third quarter of 2012 and the fourth quarter of 2013, and our increased short-term borrowings as compared to 2012. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for definition and discussion of our various credit resources. Interest expense in 2012 increased by \$7.3 million as compared with 2011 primarily attributable to interest expense associated with increased borrowings under our Bridge Loan and senior notes and \$1.3 million in unamortized deferred loan costs related to our Prior Credit Agreement that were expensed in the third quarter of 2012. At December 31, 2013, approximately 38% of our debt was at fixed rates, including the effects of \$140.0 million of notional interest rate swaps.

Interest income in 2013 increased by \$0.4 million as compared with 2012. The increase was primarily attributable to higher average cash balances in 2013 as compared with 2012. Interest income in 2012 decreased by \$0.6 million compared to 2011. The decrease was primarily attributable to lower average cash balances in 2012 as compared with

2011.

30

Other (Expense) Income, net

	2013	2012	2011
	(Amounts in millions)		
Other (expense) income, net	\$(14.3	) \$(21.6	) \$3.7

Other (expense) income, net in 2013 decreased \$7.3 million as compared with 2012. The decrease was primarily due to a \$6.0 million decrease in losses arising from transactions in currencies other than our sites' functional currencies primarily due to the foreign currency exchange rate movements of the Euro, Argentinian peso, and Mexican peso in relation to the U.S. dollar.

Other (expense) income, net in 2012 decreased \$25.3 million to other expense, net of \$21.6 million, as compared with other income, net of \$3.7 million in 2011. The decrease was primarily due to a \$21.6 million increase in losses arising from transactions in currencies other than our sites' functional currencies, as well as a \$3.4 million increase in losses on foreign exchange contracts. The decrease was primarily due to foreign currency exchange rate movements of the Euro and Mexican peso in relation to the U.S. dollar.

Tax Expense and Tax Rate

	2013	2012	2011
	(Amounts in millions, except percentages)		
Provision for income taxes	\$204.7	\$160.8	\$158.5
Effective tax rate	29.5	% 26.3	% 27.0

The 2013, 2012 and 2011 effective tax rates differed from the federal statutory rate of 35% primarily due to the net impact of foreign operations, which included the impacts of lower foreign tax rates and changes in our reserves established for uncertain tax positions.

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was signed into law, creating an exclusion from U.S. taxable income for certain types of foreign related party payments of dividends, interest, rents and royalties that, prior to 2006, had been subject to U.S. taxation. This exclusion is effective for the years 2006 through 2013, and applies to certain of our related party payments.

Our effective tax rate is based upon current earnings and estimates of future taxable earnings for each domestic and international location. Changes in any of these and other factors, including our ability to utilize foreign tax credits and net operating losses or results from tax audits, could impact the tax rate in future periods. As of December 31, 2013, we have foreign tax credits of \$27.9 million, expiring in 2020 through 2023 against which we recorded a valuation allowance of \$0.8 million. Additionally, we have recorded other net deferred tax assets of \$27.3 million, which relate to net operating losses, tax credits and other deductible temporary differences that are available to reduce taxable income in future periods, most of which do not have a definite expiration. Should we not be able to utilize all or a portion of these credits and losses, our effective tax rate would increase.

Net Earnings and Earnings Per Share

	2013	2012	2011
	(Amounts in millions, except per share amounts)		
Net earnings attributable to Flowserve Corporation	\$485.5	\$448.3	\$428.6
Net earnings per share — diluted	\$3.41	\$2.84	\$2.55
Average diluted shares	142.4	158.0	168.3

Net earnings in 2013 increased by \$37.2 million to \$485.5 million, or to \$3.41 per diluted share, as compared with 2012. The increase was primarily attributable to an \$84.5 million increase in operating income and a \$7.3 million decrease in other expense, partially offset by a \$10.9 million increase in interest expense and a \$43.9 million increase in tax expense.

Net earnings in 2012 increased by \$19.7 million to \$448.3 million, or to \$2.84 per diluted share, as compared with 2011. The increase was primarily attributable to a \$57.1 million increase in operating income, partially offset by a \$25.3 million decrease in other income, a \$7.3 million increase in interest expense and a \$2.3 million increase in tax expense.

Other Comprehensive Income (Loss)

	2013	2012	2011
	(Amounts in millions)		
Other comprehensive income (loss)	\$2.8	\$(8.3)	\$(65.6)

Other comprehensive income (loss) in 2013 increased by \$11.1 million. The increase was primarily due to pension and other postretirement benefits activity, partially offset by foreign currency translation impact resulting from the weakening of the Argentinian peso, Mexican peso, Indian rupee, Canadian dollar and Australian dollar at December 31, 2013 as compared with December 31, 2012.

Other comprehensive loss in 2012 decreased by \$57.3 million, primarily reflecting the foreign currency translation impact resulting from the strengthening of the Euro, Mexican peso and Indian rupee at December 31, 2012 as compared with December 31, 2011.

Business Segments

We conduct our operations through three business segments based on type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. See Note 17 to our consolidated financial statements included in Item 8 of this Annual Report for further discussion of our segments. The key operating results for our three business segments, EPD, IPD and FCD, are discussed below.

Engineered Product Division Segment Results

Our largest business segment is EPD, through which we design, manufacture, distribute and service custom and other highly-engineered pumps and pump systems, mechanical seals and auxiliary systems (collectively referred to as "original equipment"). EPD includes longer lead time, highly-engineered pump products, and shorter cycle engineered pumps and mechanical seals that are generally manufactured within shorter lead times. EPD also manufactures replacement parts and related equipment and provides a full array of replacement parts, repair and support services (collectively referred to as "aftermarket"). EPD primarily operates in the oil and gas, power generation, chemical, water management and general industries. EPD operates in 42 countries with 29 manufacturing facilities worldwide, nine of which are located in Europe, 11 in North America, four in Asia and five in Latin America, and it has 127 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

	EPD		
	2013	2012	2011 (1)
	(Amounts in millions, except percentages)		
Bookings	\$2,474.1	\$2,373.1	\$2,333.5
Sales	2,537.1	2,403.1	2,321.4
Gross profit	861.3	811.2	803.4
Gross profit margin	33.9	% 33.8	% 34.6
Segment operating income	423.3	396.1	395.2
Segment operating income as a percentage of sales	16.7	% 16.5	% 17.0
Backlog (at period end)	1,311.4	1,400.3	1,441.6

(1) Includes the post-acquisition operating results of LPI, which was acquired in October 2011.

Bookings in 2013 increased by \$101.0 million, or 4.3%, as compared with 2012. The increase included negative currency effects of approximately \$39 million. The increase in customer bookings was primarily driven by the oil and gas, general and chemical industries, partially offset by the water management industry. Customer bookings increased \$55.7 million into Asia Pacific, \$17.3 million into Latin America, \$9.0 million into the Middle East and \$7.8 million into North America and was primarily driven by customer original equipment bookings. Of the \$2.5 billion of bookings in 2013, approximately 50% were from oil and gas, 17% from general industries, 16% from power generation, 16% from chemical and 1% from water management. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased \$2.9 million.

Bookings in 2012 increased by \$39.6 million, or 1.7%, as compared with 2011. The increase included negative currency effects of approximately \$105 million. The increase in customer bookings was primarily driven by the

chemical, oil and gas and general industries, partially offset by the power generation industry. Customer bookings increases of \$80.1 million into North

America, \$53.0 million into Asia Pacific and \$47.1 million into Europe were partially offset by a decrease of \$129.8 million into the Middle East. The overall net increase was driven by aftermarket bookings. The increase included the impact of an order in the first quarter of 2011 in excess of \$80 million to supply a variety of pumps for a refinery in the Middle East that did not recur in 2012. Of the \$2.4 billion of bookings in 2012, approximately 51% were from oil and gas, 17% from power generation, 15% from chemical, 2% from water management and 15% from general industries. The trend toward globalization is continuing to drive spending in the chemical, oil and gas and general industries in 2012. The North American pipeline business and the global fertilizer market strengthened compared to last year. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$11.2 million.

Sales in 2013 increased \$134.0 million, or 5.6%, as compared with 2012. The increase included negative currency effects of approximately \$43 million. The increase was primarily driven by increased original equipment sales, primarily resulting from increased customer sales of \$88.7 million into Asia Pacific, \$43.8 million into North America, \$36.1 million into Africa, \$36.2 million into Latin America and \$12.9 million into Europe, partially offset by decreased sales of \$79.7 million into the Middle East. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$1.3 million.

Sales in 2012 increased \$81.7 million, or 3.5%, as compared with 2011. The increase included negative currency effects of approximately \$106 million. The increase was more heavily weighted towards aftermarket sales, primarily resulting from customer sales increases of \$75.0 million into North America, \$52.9 million into the Middle East and \$21.1 million into Asia Pacific, partially offset by sales decreases of \$28.6 million into Europe and \$21.6 million into Latin America. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$17.4 million.

Gross profit in 2013 increased by \$50.1 million, or 6.2%, as compared with 2012. Gross profit margin in 2013 of 33.9% was comparable with 2012. Lower costs associated with our execution of operational improvements and to a lesser extent, fewer lower margin projects that shipped from backlog, substantially offset by a sales mix shift to lower margin original equipment sales.

Gross profit in 2012 increased by \$7.8 million, or 1.0%, as compared with 2011. Gross profit margin in 2012 of 33.8% decreased from 34.6% in 2011. The decrease was primarily attributed to a larger effect on revenue of certain large, lower margin projects that shipped from backlog, as compared with the same period in 2011, partially offset by the effects of operational execution improvements and a sales mix shift towards higher margin aftermarket sales.

Operating income in 2013 increased by \$27.2 million, or 6.9%, as compared with 2012. The increase included negative currency effects of approximately \$8 million. The increase was due primarily to the gross profit increase of \$50.1 million, partially offset by increased SG&A of \$19.1 million (including a decrease due to currency effects of approximately \$6 million). The increase in SG&A was due in part to increased bad debt expense related to certain customers and included a \$10.4 million gain from the sale of our manufacturing facility in Rio de Janeiro, Brazil, in 2012 that did not recur in 2013.

Operating income in 2012 increased by \$0.9 million, or 0.2%, as compared with 2011. The increase included negative currency effects of approximately \$20 million. The increase was due primarily to the gross profit increase of \$7.8 million, partially offset by increased SG&A of \$7.4 million (including a decrease due to currency effects of approximately \$13 million). The increase in SG&A included a \$10.4 million gain from the sale of our manufacturing facility in Rio de Janeiro, Brazil, for the opening a new manufacturing facility there in 2013, offset by increased SG&A costs associated with LPI, increased broad-based annual incentive compensation and increased selling-related expenses.

Backlog of \$1.3 billion at December 31, 2013 decreased by \$88.9 million, or 6.3%, as compared with December 31, 2012. Currency effects provided a decrease of approximately \$19 million. Backlog at December 31, 2013 included \$21.6 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above). Backlog of \$1.4 billion at December 31, 2012 decreased by \$41.3 million, or 2.9%, as compared to December 31, 2011. Currency effects provided an increase of approximately \$11 million. Backlog at December 31, 2012 included \$21.4 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above).

Industrial Product Division Segment Results

Through IPD we design, manufacture, distribute and service engineered, pre-configured industrial pumps and pump systems, including submersible motors and specialty products, collectively referred to as "original equipment." Additionally, IPD manufactures replacement parts and related equipment, and provides a full array of support services, collectively referred to as "aftermarket". IPD primarily operates in the oil and gas, chemical, water management, power generation and general industries. IPD operates 13 manufacturing facilities, four of which are located in the U.S and six in Europe, and it operates 19 QRCs worldwide, including nine sites in Europe and four in the U.S., including those co-located in manufacturing facilities.

	IPD					
	2013 (1)		2012		2011	
	(Amounts in millions, except percentages)					
Bookings	\$889.1		\$964.3		\$905.4	
Sales	950.2		953.9		878.2	
Gross profit	245.3		230.3		197.5	
Gross profit margin	25.8	%	24.1	%	22.5	%
Segment operating income	115.7		99.5		62.9	
Segment operating income as a percentage of sales	12.2	%	10.4	%	7.2	%
Backlog (at period end)	530.1		593.0		567.8	

(1) Includes the post-acquisition operating results of Innomag, which was acquired in December 2013.

Bookings in 2013 decreased by \$75.2 million, or 7.8%, as compared with 2012. This decrease included currency benefits of approximately \$4 million. The decrease included the impact of orders in 2012 in excess of \$90 million to supply offshore oil and gas platform equipment primarily to an end customer in Latin America. The nonrecurrence of large orders of similar size in 2013 resulted in decreased customer bookings in the oil and gas and general industries, partially offset by an increase in the power generation industry. Customer bookings decreases of \$83.4 million into Latin America and \$5.1 million into Africa were partially offset by increases of \$8.7 million into Europe and \$5.6 million into North America. The decrease was driven by customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$5.9 million. Of the \$889.1 million of bookings in 2013, approximately 31% were from oil and gas, 29% from general industries, 18% from water management, 14% from chemical and 8% from power generation.

Bookings in 2012 increased by \$58.9 million, or 6.5%, as compared with 2011. The increase included negative currency effects of approximately \$35 million. The increase was primarily driven by increased customer bookings in the oil and gas and chemical industries, partially offset by the power industry. The increase included the impact of 2012 orders in excess of \$90 million to supply offshore oil and gas platform equipment over the next five years primarily to an end customer in Latin America. Customer bookings increases of \$105.2 million into Latin America and \$32.7 million into North America were partially offset by a decrease of \$37.7 million into Europe and \$22.8 million into Asia Pacific. The increase was more heavily weighted toward customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$24.7 million. Of the \$964.3 million of bookings in 2012, approximately 35% were from oil and gas, 16% from water management, 13% from chemical, 5% from power generation and 31% from general industries. In 2012, opportunities in the chemical industry were driven by inexpensive natural gas in North America and demand for product diversification in the Middle East. Additionally, stable pricing in 2012 promoted investment in both conventional and unconventional oil.

Sales in 2013 decreased by \$3.7 million, or 0.4%, as compared with 2012. The decrease included currency benefits of approximately \$5 million. The decrease was driven by interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above), which decreased \$13.2 million and were partially offset by an increase in customer sales driven by original equipment sales. Increased customer sales of \$31.7 million into Latin America and \$13.8 million into Africa were partially offset by decreased sales of \$22.5 million into the Middle East, \$11.2 million into Europe and \$6.0 million into Asia Pacific.

Sales in 2012 increased by \$75.7 million, or 8.6%, as compared with 2011. The increase included negative currency effects of approximately \$31 million. The increase in customer sales was primarily driven by original equipment sales. Customer sales increases of \$35.9 million into North America, \$15.2 million into the Middle East, \$14.3 million into Asia Pacific and \$12.1 million into Latin America were partially offset by decreased sales of \$22.7 million into Europe. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$14.6 million.

Gross profit in 2013 increased by \$15.0 million, or 6.5%, as compared with 2012. Gross profit margin in 2013 of 25.8% increased from 24.1% in 2012. The increase was primarily attributable to lower manufacturing costs resulting

from our execution of operational improvements.

Gross profit in 2012 increased by \$32.8 million, or 16.6%, as compared with 2011. Gross profit margin in 2012 of 24.1% increased from 22.5% in 2011. The increase was primarily attributable to \$7.1 million of IPD recovery plan realignment charges incurred in 2011 that did not recur in 2012, lower costs resulting from operational improvements and continued realization of realignment savings, partially offset by a sales mix shift to lower margin original equipment sales.

Operating income for 2013 increased by \$16.2 million, or 16.3%, as compared with 2012. The increase included currency benefits of approximately \$1 million. The increase was due to the \$15.0 million increase in gross profit and a \$1.2 million decrease in SG&A.

Operating income for 2012 increased by \$36.6 million, or 58.2%, as compared with 2011. The increase included negative currency effects of approximately \$4 million. The increase was due to the \$32.8 million increase in gross profit discussed above and a \$3.8 million decrease in SG&A.

Backlog of \$530.1 million at December 31, 2013 decreased by \$62.9 million, or 10.6%, as compared with December 31, 2012. Currency effects provided an increase of approximately \$10 million. Backlog at December 31, 2013 included \$30.0 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above). Backlog of \$593.0 million at December 31, 2012 increased by \$25.2 million, or 4.4%, as compared to December 31, 2011. Currency effects provided an increase of approximately \$13 million. Backlog at December 31, 2012 included \$40.7 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above).

Flow Control Division Segment Results

Our second largest business segment is FCD, which designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products, boiler controls and related services. FCD leverages its experience and application know-how by offering a complete menu of engineered services to complement its expansive product portfolio. FCD has a total of 60 manufacturing facilities and QRCs in 25 countries around the world, with five of its 27 manufacturing operations located in the U.S., 14 located in Europe and seven located in Asia Pacific. Based on independent industry sources, we believe that FCD is the fourth largest industrial valve supplier on a global basis.

	FCD				
	2013	2012	2011		
	(Amounts in millions, except percentages)				
Bookings	\$1,661.9	\$1,526.8	\$1,603.0		
Sales	1,615.7	1,557.1	1,473.3		
Gross profit	579.2	541.4	511.5		
Gross profit margin	35.8	% 34.8	% 34.7		%
Segment operating income	308.0	253.4	233.3		
Segment operating income as a percentage of sales	19.1	% 16.3	% 15.8		%
Backlog (at period end)	769.6	723.9	759.9		

Bookings in 2013 increased \$135.1 million, or 8.8%, as compared with 2012. The increase included currency benefits of approximately \$5 million. The increase in customer bookings was primarily attributable to the oil and gas, general and chemical industries, partially offset by a decrease in the power generation industry. Increased customer bookings of \$60.1 million into North America, \$47.3 million into Latin America, \$35.2 million into Europe and \$9.6 million in to Asia Pacific were partially offset by a decrease of \$16.6 million into the Middle East. The increase was primarily driven by increased customer original equipment bookings. Of the \$1.7 billion of bookings in 2013, approximately 32% were from oil and gas, 27% from chemical, 26% from general industries, 13% from power generation and 2% from water management.

Bookings in 2012 decreased \$76.2 million, or 4.8%, as compared with 2011. The decrease included negative currency effects of approximately \$63 million. The decrease in customer bookings was primarily attributable to customer project delays in the oil and gas industry and fewer pulp and paper projects in general industries. Customer bookings decreases of \$68.6 million into Europe and \$21.9 million into Latin America were partially offset by an increase of \$13.6 million into the Middle East. The decrease was more heavily weighted toward original equipment bookings. Of the \$1.5 billion of bookings in 2012, approximately 29% were from oil and gas, 29% from chemical, 27% from general industries, 14% from power generation and 1% from water management.

Sales in 2013 increased \$58.6 million, or 3.8%, as compared with 2012. The increase included currency benefits of approximately \$6 million. The increase was primarily driven by customer original equipment sales and growth in the

oil and gas and power generation industries. Increased sales of \$45.9 million into North America, \$16.6 million into Europe and \$9.6 million into the Middle East were partially offset by a decrease of \$14.7 million into Asia Pacific.

Sales in 2012 increased \$83.8 million, or 5.7%, as compared with 2011. The increase included negative currency effects of approximately \$67 million. The increase was primarily driven by customer original equipment sales in the oil and gas and chemical industries. Sales increases of \$77.8 million into Asia Pacific and \$47.5 million into North America were partially offset by a decrease of \$42.4 million into Europe.

Gross profit in 2013 increased by \$37.8 million, or 7.0% as compared with 2012. Gross profit margin as of December 31, 2013 of 35.8% increased from 34.8% for the same period in 2012. The increase was attributable to a more favorable sales mix between original equipment and aftermarket, a shift in product line mix and continued traction of low cost sourcing and cost control initiatives.

Gross profit in 2012 increased by \$29.9 million, or 5.8% as compared with 2011. Gross profit margin in 2012 of 34.8% was comparable to the same period in 2011.

Operating income in 2013 increased by \$54.6 million, or 21.5%, as compared with 2012. The increase included negative currency effects of approximately \$5 million. The increase was primarily attributable to the \$28.3 million in pre-tax gains realized from transactions concerning the AIL joint venture, as discussed in Note 2 to our consolidated financial statements included in this Annual Report, and the \$37.8 million increase in gross profit, partially offset by a \$9.0 million increase in SG&A primarily driven by increased selling and research and development costs.

Operating income in 2012 increased by \$20.1 million, or 8.6%, as compared with 2011. The increase included negative currency effects of approximately \$12 million. The increase was principally attributable to the \$29.9 million increase in gross profit noted above, partially offset by a \$7.2 million increase in SG&A (including a decrease due to currency effects of approximately \$11 million). Increased SG&A was primarily attributable to increased selling and research and development costs.

Backlog of \$769.6 million at December 31, 2013 increased by \$45.7 million, or 6.3%, as compared with December 31, 2012. Currency effects provided an increase of approximately \$1 million. Backlog of \$723.9 million at December 31, 2012 decreased by \$36.0 million, or 4.7%, as compared to December 31, 2011. Currency effects provided a decrease of approximately \$3 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

	2013	2012	2011
	(Amounts in millions)		
Net cash flows provided by operating activities	\$487.8	\$517.1	\$218.2
Net cash flows used by investing activities	(168.0)	(126.4)	(194.2)
Net cash flows used by financing activities	(255.8)	(428.9)	(239.0)

Existing cash, cash generated by operations and borrowings available under our existing revolving credit facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our total cash balance at December 31, 2013 was \$363.8 million, compared with \$304.3 million at December 31, 2012 and \$337.4 million at December 31, 2011. Our cash provided by operating activities was \$487.8 million, \$517.1 million and \$218.2 million in 2013, 2012 and 2011, respectively, which provided cash to support short-term working capital needs. Working capital increased in 2013 due primarily to higher accounts receivable of \$53.8 million. During 2013, we contributed \$46.9 million to our defined benefit pension plans. Working capital increased in 2012 due primarily to higher inventory of \$72.7 million and higher accounts receivable of \$35.1 million. During 2012, we contributed \$28.1 million to our defined benefit pension plans.

Increases in accounts receivable used \$53.8 million of cash flow in 2013, as compared with \$35.1 million in 2012 and \$243.1 million in 2011. The use of cash for accounts receivable in 2013 was directly related to the overall increase in sales, and increased aging and slower collection of certain receivables in Latin America, as compared with 2012. The use of cash for accounts receivable in 2012 was primarily attributable to delays in the collection of accounts receivable due to slower than anticipated payments from certain customers. The use of cash for accounts receivable in 2011 was

primarily attributable to delays in the collection of accounts receivable due to slower than anticipated payments from certain customers, relatively strong sales in December 2011, in part due to the completion of certain previously past due projects, and contractually longer payment terms in 2011. For the fourth quarter of 2013, 2012 and 2011, our days' sales outstanding ("DSO") was 75 days. For reference purposes based on 2013 sales, a DSO

improvement of one day could provide approximately \$15 million in cash. We have not experienced a significant increase in customer payment defaults in 2013.

Decreases in inventory provided \$28.6 million of cash flow in 2013 compared with uses of \$72.7 million in 2012 and \$139.8 million in 2011. The cash provided from inventory in 2013 was primarily due a reduction of delayed shipments and an increase in progress billings on large orders at December 31, 2013. The use of cash for inventory in 2012 was primarily due to a decrease in progress billings on large orders at December 31, 2012 and higher raw material inventory needed to support an increased level of bookings. The use of cash for inventory in 2011 was primarily due to shipment delays and growth of short cycle orders during 2011, requiring higher raw material and work in process inventory to support end of period backlog. Inventory turns were 3.5 times at December 31, 2013, compared with 3.2 and 3.4 times for the same period in 2012 and 2011, respectively. Our calculation of inventory turns does not reflect the impact of advanced cash received from our customers. For reference purposes based on 2013 data, an improvement of one-tenth of a turn could yield approximately \$24 million in cash.

Cash flows used by investing activities were \$168.0 million, \$126.4 million and \$194.2 million in 2013, 2012 and 2011, respectively, due primarily to capital expenditures and cash paid for acquisitions, partially offset by cash received from the Audco India, Limited ("AIL") transaction discussed in Note 2 to our consolidated financial statements included in Item 8 of this Annual Report. Capital expenditures were \$139.1 million, \$135.5 million and \$108.0 million in 2013, 2012 and 2011, respectively. In 2013, our capital expenditures were focused on strategic initiatives to pursue new markets, geographic and capacity expansion, information technology infrastructure and cost reduction opportunities. Cash paid for acquisitions during 2013 was \$76.8 million as compared with \$4.0 million in 2012 and \$90.5 million in 2011. Additionally, in 2013 we sold our 50% equity interest in AIL to the joint venture partner for \$46.2 million in cash.

Cash flows used by financing activities were \$255.8 million in 2013 compared with \$428.9 million in 2012 and \$239.0 million in 2011. Cash outflows during 2013 resulted primarily from the repurchase of \$458.3 million of our common stock and \$76.9 million of dividend payments, partially offset by \$298.6 million in net proceeds from the issuance of senior notes. Cash outflows during 2012 resulted primarily from the repurchase of \$771.9 million of our common stock, \$80.0 million in net payments on long-term debt and \$73.8 million of dividend payments, partially offset by \$498.1 million in net proceeds from the issuance of senior notes.

On May 31, 2012, we announced that our Board of Directors endorsed a capital structure strategy designed to make our financial structure more efficient. This capital structure strategy includes: (i) targeting a long-term gross leverage ratio of 1.0x-2.0x total debt to EBITDA through the business cycle; and (ii) an expanded share repurchase program of \$1.0 billion, which has subsequently been completed. We have maintained our previously-announced policy of annually returning 40% to 50% of running two-year average net earnings to shareholders following attainment of the announced target leverage ratio. On February 19, 2013, our Board of Directors approved a \$750.0 million share repurchase authorization, which included approximately \$193 million of remaining capacity under the previous \$1.0 billion share repurchase authorization. As of December 31, 2013, we had \$384.4 million of remaining capacity under our current share repurchase program. While we intend to adhere to this policy for the foreseeable future, any future returns of cash through dividends and/or share repurchases, will be reviewed individually, declared by our Board of Directors and implemented by management at its discretion, depending on our financial condition, business opportunities and market conditions at such time.

As a part of our continuing effort to execute our capital structure strategy, in the fourth quarter of 2013 we amended our existing credit agreement that provided an initial \$400.0 million term loan ("Term Loan Facility") and a revolving credit facility ("Revolving Credit Facility" and, together with the Term Loan Facility, the "Senior Credit Facility"). The significant amendments extended the maturity of our Senior Credit Facility by one year to October 4, 2018, increased the Revolving Credit Facility from \$850.0 million to \$1.0 billion and removed the \$300.0 million sublimit for the issuance of performance letters of credit. The Revolving Credit Facility retained its \$30.0 million sublimit for swing line loans and all other significant existing terms under the credit agreement remained unchanged. This new agreement provides additional debt capacity to enhance our operating flexibility. Additionally, on November 1, 2013, we issued \$300.0 million in aggregate principal amount of senior notes, which bear an annual stated interest rate of 4.00% (see Note 10 to our consolidated financial statements included in Item 8 of this Annual Report).

Our cash needs for the next 12 months are expected to be less than those of 2013, resulting from a decreased level of anticipated share repurchases and improvements in working capital management, partially offset by increased cash dividends. We believe cash flows from operating activities, combined with availability under our Revolving Credit Facility and our existing cash balances, will be sufficient to enable us to meet our cash flow needs for the next 12 months. However, cash flows from operations could be adversely affected by a decrease in the rate of general global economic growth, as well as economic, political and other risks associated with sales of our products, operational factors, competition, regulatory actions, fluctuations in foreign currency exchange rates and fluctuations in interest rates, among other factors. We believe that cash flows from operating activities and our expectation of continuing availability to draw upon our credit agreements are also sufficient to meet our cash flow needs for periods beyond the next 12 months.

Payments for Acquisitions

We regularly evaluate acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition, including our ability to raise economical capital, is a critical consideration in any such evaluation.

Note 2 to our consolidated financial statements included in Item 8 of this this Annual Report contains a discussion of acquisitions.

Financing

A discussion of our debt and related covenants is included in Note 10 to our consolidated financial statements included in Item 8 of this this Annual Report. We were in compliance with all covenants as of December 31, 2013. Certain financing arrangements contain provisions that may result in an event of default if there was a failure under other financing arrangements to meet payment terms or to observe other covenants that could result in an acceleration of payment due. Such provisions are referred to as "cross default" provisions. Each of the Senior Credit Facility, the Senior Notes and the European Letter of Credit ("LOC") Facility is cross-defaulted to the other.

The rating agencies assign credit ratings to certain of our debt. Our access to capital markets and costs of debt could be directly affected by our credit ratings. Any adverse action with respect to our credit ratings could generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease. In particular, a decline in credit ratings would increase the cost of borrowing under our Senior Credit Facility.

We have entered into interest rate swap agreements to hedge our exposure to variable interest payments related to our Senior Credit Facility. These agreements are more fully described in Note 6 to our consolidated financial statements included in Item 8 of this Annual Report, and in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" below.

Liquidity Analysis

Our cash balance increased by \$59.6 million to \$363.8 million as of December 31, 2013 as compared with December 31, 2012. The cash increase included \$487.8 million in operating cash flows, \$298.6 million in proceeds from the issuance of senior notes and \$46.2 million in proceeds from the sale of our 50% equity interest in AIL, partially offset by \$458.3 million of share repurchases, \$139.1 million in capital expenditures, \$76.9 million in dividend payments and \$76.8 million in acquisition payments.

Approximately 11% of our Term Loan Facility is due to mature in 2014 and approximately 12% in 2015. Our Senior Credit Facility matures in October 2018. After the effects of \$140.0 million of notional interest rate swaps, approximately 38% of our Term Loan Facility was at fixed rates at December 31, 2013. As of December 31, 2013, we had a borrowing capacity of \$893.9 million on our \$1.0 billion Revolving Credit Facility (including outstanding letters of credit). Our Revolving Credit Facility is committed and held by a diversified group of financial institutions. In the third quarter of 2013 we elected not to renew our European LOC facility.

At December 31, 2013 and 2012, as a result of increases in values of the plan's assets and our contributions to the plan, our U.S. pension plan was fully-funded as defined by applicable law. After consideration of our intent to maintain fully funded status, we contributed \$20.0 million to our U.S. pension plan in 2013, excluding direct benefits paid of \$4.2 million. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

At December 31, 2013, \$334.0 million of our total cash balance of \$363.8 million was held by foreign subsidiaries, \$257.7 million of which we consider permanently reinvested outside the U.S. Based on the expected 2013 liquidity needs of our various geographies, we currently do not anticipate the need to repatriate any permanently reinvested cash to fund domestic operations that would generate adverse tax results. However, in the event this cash is needed to fund domestic operations, we estimate the \$257.7 million could be repatriated resulting in a U.S. cash tax liability between \$5 million and \$15 million. Should we be required to repatriate this cash, it could limit our ability to assert permanent reinvestment of foreign earnings and invested capital in future periods.

OUTLOOK FOR 2014

Our future results of operations and other forward-looking statements contained in this Annual Report, including this MD&A, involve a number of risks and uncertainties — in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, future economic conditions, revenue, pricing, gross

profit margin and costs, capital spending, depreciation and amortization, research and development expenses, potential impairment of investments, tax rate and pending tax and legal proceedings. Our future results of operations may also be affected by the amount, type and valuation of share-based awards granted, as well as the amount of awards forfeited due to employee turnover. In addition to the various important

factors discussed above, a number of other factors could cause actual results to differ materially from our expectations. See the risks described in "Item 1A. Risk Factors" of this Annual Report.

Our bookings were \$4,881.4 million during 2013. Because a booking represents a contract that can be, in certain circumstances, modified or canceled, and can include varying lengths between the time of booking and the time of revenue recognition, there is no guarantee that the increase in bookings will result in a comparable increase in revenues or otherwise be indicative of future results.

We expect a continued competitive economic environment in 2014; however, we anticipate benefits from the continuation of our end-user strategy, the strength of our high margin aftermarket business, continued disciplined cost management, our diverse customer base, our broad product portfolio and our unified operating platform. Similar to prior years, we expect our results will be weighted towards the second half of the year. While we believe that our primary markets continue to provide opportunities, we remain cautious in our outlook for 2014 given the continuing uncertainty of global economic conditions. For additional discussion on our markets and our opportunities, see the "Business Overview — Our Markets" section of this MD&A.

On December 31, 2013, we had \$796.9 million of fixed-rate Senior Notes outstanding and \$370.0 million of variable-rate debt under our Senior Credit Facility. As of December 31, 2013, we had \$140.0 million of derivative contracts to convert a portion of variable interest rates to fixed interest rates to reduce our exposure to interest rate volatility. However, because a portion of our debt carries a variable rate of interest, our debt is subject to volatility in rates, which could impact interest expense. We expect our interest expense in 2014 will be higher than 2013 due to our increased level of debt. Our results of operations may also be impacted by unfavorable foreign currency exchange rate movements. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" of this Annual Report. We expect to generate sufficient cash from operations to fund our working capital, capital expenditures, dividend payments, share repurchases, debt payments and pension plan contributions in 2014. The amount of cash generated or consumed by working capital is dependent on our level of revenues, customer cash advances, backlog, customer-driven delays and other factors. We seek to improve our working capital utilization, with a particular focus on improving the management of accounts receivable and inventory. In 2014, our cash flows for investing activities will be focused on strategic initiatives to pursue new markets, geographic expansion, information technology infrastructure and cost reduction opportunities and we expect capital expenditures to be between \$130 million and \$140 million, before consideration of any potential acquisition activity. We have \$40.0 million in scheduled principal repayments in 2014 under our Senior Credit Facility, and we expect to comply with the covenants under our Senior Credit Facility in 2014. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for further discussion of our debt covenants.

We currently anticipate that our minimum contribution to our qualified U.S. pension plan will be approximately \$20 million, excluding direct benefits paid, in 2014 in order to maintain fully-funded status as defined by applicable law. We currently anticipate that our contributions to our non-U.S. pension plans will be approximately \$13 million in 2014, excluding direct benefits paid.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of our contractual obligations at December 31, 2013:

	Payments Due By Period				Total
	Within 1 Year	1-3 Years	3-5 Years	Beyond 5 Years	
	(Amounts in millions)				
Term Loan Facility and Senior Notes	\$40.0	\$105.0	\$225.0	\$796.9	\$1,166.9
Fixed interest payments(1)	29.9	59.0	59.0	123.4	271.3
Variable interest payments(2)	5.4	8.8	4.8	—	19.0
Other debt and capital lease obligations	32.7	0.7	—	—	33.4
Operating leases	54.1	75.5	45.6	47.0	222.2
Purchase obligations:(3)					
Inventory	503.9	10.0	2.5	0.1	516.5
Non-inventory	44.1	0.7	—	—	44.8
Pension and postretirement benefits(4)	55.4	112.6	121.1	322.6	611.7
Total	\$765.5	\$372.3	\$458.0	\$1,290.0	\$2,885.8

Fixed interest payments represent net incremental payments under interest rate swap agreements related to the (1) interest payments on the Senior Notes and Term Loan Facility as defined in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report.

(2) Variable interest payments under our Term Loan Facility were estimated using a base rate of three-month LIBOR as of December 31, 2013.

(3) Purchase obligations are presented at the face value of the purchase order, excluding the effects of early termination provisions. Actual payments could be less than amounts presented herein.

Retirement and postretirement benefits represent estimated benefit payments for our U.S. and non-U.S. defined (4) benefit plans and our postretirement medical plans, as more fully described below and in Note 12 to our consolidated financial statements included in Item 8 of this Annual Report.

As of December 31, 2013, the gross liability for uncertain tax positions was \$59.3 million. We do not expect a material payment related to these obligations to be made within the next twelve months. We are unable to provide a reasonably reliable estimate of the timing of future payments relating to the uncertain tax positions.

The following table presents a summary of our commercial commitments at December 31, 2013:

	Commitment Expiration By Period				Total
	Within 1 Year	1-3 Years	3-5 Years	Beyond 5 Years	
	(Amounts in millions)				
Letters of credit	\$484.2	\$167.2	\$40.0	\$11.8	\$703.2
Surety bonds	68.5	25.4	—	—	93.9
Total	\$552.7	\$192.6	\$40.0	\$11.8	\$797.1

We expect to satisfy these commitments through performance under our contracts.

PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS**Plan Descriptions**

We and certain of our subsidiaries have defined benefit pension plans and defined contribution plans for full-time and part-time employees. Approximately 68% of total defined benefit pension plan assets and approximately 53% of defined benefit pension obligations are related to the U.S. qualified plan as of December 31, 2013. The assets for the U.S. qualified plan are held in a single trust with a common asset allocation. Unless specified otherwise, the references in this section are to all of our U.S. and non-U.S. plans. None of our common stock is directly held by these plans.

Our U.S. defined benefit plan assets consist of a balanced portfolio of primarily U.S. equity and fixed income securities. Our non-U.S. defined benefit plan assets include a significant concentration of United Kingdom ("U.K.") equity and fixed income securities. In addition, certain of our defined benefit plans hold investments in European equity and fixed income securities as discussed in Note 12 to our consolidated financial statements included in Item 8 of this Annual Report. We monitor investment allocations and manage plan assets to maintain acceptable levels of risk.

Benefits under our defined benefit pension plans are based primarily on participants' compensation and years of credited service. Assets under our defined benefit pension plans consist primarily of equity and fixed-income securities. At December 31, 2013, the estimated fair market value of U.S. and non-U.S. plan assets for our defined benefit pension plans increased to \$605.5 million from \$553.4 million at December 31, 2012. Assets were allocated as follows:

Asset category	U.S. Plan			
	2013		2012	
U.S. Large Cap	20	%	28	%
U.S. Small Cap	4	%	4	%
International Large Cap	14	%	14	%
Emerging Markets	5	%	4	%
World Equity	8	%	0	%
Equity securities	51	%	50	%
Liability Driven Investment	39	%	0	%
Long-Term Government/Credit	10	%	21	%
Intermediate Bond	0	%	29	%
Fixed income	49	%	50	%
Other(1)	0	%	0	%

(1) Less than 1% of holdings are in Other category in 2013.

Asset category	Non-U.S. Plans			
	2013		2012	
North American Companies	3	%	5	%
U.K. Companies	10	%	19	%
European Companies	4	%	6	%
Asian Pacific Companies	3	%	5	%
Global Equity	8	%	1	%
Equity securities	28	%	36	%
U.K. Government Gilt Index	28	%	21	%
U.K. Corporate Bond Index	21	%	19	%
Global Fixed Income Bond	20	%	22	%
Fixed income	69	%	62	%
Other	3	%	2	%

The projected benefit obligation ("Benefit Obligation") for our defined benefit pension plans was \$769.2 million and \$763.9 million as of December 31, 2013 and 2012, respectively.

The estimated prior service cost and the estimated actuarial net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net pension expense in 2014 is less than \$0.5 million and \$15.1 million, respectively. We amortize estimated prior service costs and estimated net losses over the remaining expected service period or over the remaining expected lifetime for plans with only inactive participants.

We sponsor defined benefit postretirement medical plans covering certain current retirees and a limited number of future retirees in the U.S. These plans provide for medical and dental benefits and are administered through insurance

companies. We fund the plans as benefits are paid, such that the plans hold no assets in any period presented. Accordingly, we have no investment

strategy or targeted allocations for plan assets. The benefits under the plans are not available to new employees or most existing employees.

The Benefit Obligation for our defined benefit postretirement medical plans was \$31.5 million and \$35.0 million as of December 31, 2013 and 2012, respectively. The estimated actuarial net gain for the defined benefit postretirement medical plans that will be amortized from accumulated other comprehensive loss into net pension expense in 2014 is \$1.4 million. No estimated prior service benefit or cost is expected to be amortized from accumulated other comprehensive loss into pension expense in 2014. We amortize any estimated net gain over the remaining expected service period of approximately three years.

Accrual Accounting and Significant Assumptions

We account for pension benefits using the accrual method, recognizing pension expense before the payment of benefits to retirees. The accrual method of accounting for pension benefits requires actuarial assumptions concerning future events that will determine the amount and timing of the benefit payments.

Our key assumptions used in calculating our cost of pension benefits are the discount rate, the rate of compensation increase and the expected long-term rate of return on plan assets. We, in consultation with our actuaries, evaluate the key actuarial assumptions and other assumptions used in calculating the cost of pension and postretirement benefits, such as discount rates, expected return on plan assets for funded plans, mortality rates, retirement rates and assumed rate of compensation increases, and determine such assumptions as of December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. See discussion of our accounting for and assumptions related to pension and postretirement benefits in the "Our Critical Accounting Estimates" section of this MD&A.

In 2013, net pension expense for our defined benefit pension plans included in operating income was \$50.5 million compared with \$41.4 million in 2012 and \$37.8 million in 2011.

The following are assumptions related to our defined benefit pension plans as of December 31, 2013:

	U.S. Plan		Non-U.S. Plans	
Weighted average assumptions used to determine Benefit Obligation:				
Discount rate	4.50	%	4.22	%
Rate of increase in compensation levels	4.25		3.83	
Weighted average assumptions used to determine 2013 net pension expense:				
Long-term rate of return on assets	6.00	%	5.49	%
Discount rate	3.75		4.16	
Rate of increase in compensation levels	4.25		3.84	

The following provides a sensitivity analysis of alternative assumptions on the U.S. qualified and aggregate non-U.S. pension plans and U.S. postretirement plans.

Effect of Discount Rate Changes and Constancy of Other Assumptions:

	0.5% Increase		0.5% Decrease
	(Amounts in millions)		
U.S. defined benefit pension plan:			
Effect on net pension expense	\$(1.1	)	\$1.2
Effect on Benefit Obligation	(16.2	)	17.5
Non-U.S. defined benefit pension plans:			
Effect on net pension expense	(2.5	)	2.7
Effect on Benefit Obligation	(27.0	)	30.7
U.S. Postretirement medical plans:			
Effect on postretirement medical expense	(0.2	)	0.1
Effect on Benefit Obligation	(1.1	)	1.1

Effect of Changes in the Expected Return on Assets and Constancy of Other Assumptions:

	0.5% Increase	0.5% Decrease
	(Amounts in millions)	
U.S. defined benefit pension plan:		
Effect on net pension expense	\$(1.7	) \$1.7
Non-U.S. defined benefit pension plans:		
Effect on net pension expense	(0.8	) 0.8

As discussed below, accounting principles generally accepted in the U.S. ("U.S. GAAP") provide that differences between expected and actual returns are recognized over the average future service of employees.

At December 31, 2013, as compared with December 31, 2012, we increased our discount rate for the U.S. plan from 3.75% to 4.50% based on an analysis of publicly-traded investment grade U.S. corporate bonds, which had a higher yield due to current market conditions. The average discount rate for the non-U.S. plans increased slightly from 4.16% to 4.22% based primarily on rates remaining steady in the Eurozone, U.K. and Venezuela while all other non-U.S. countries discount rates increased. The average assumed rate of compensation remained constant at 4.25% for the U.S. plan and decreased slightly from 3.84% to 3.83% for our non-U.S. plans. To determine the 2013 pension expense, the expected rate of return on U.S. plan assets decreased from 6.25% to 6.00% and we decreased our average rate of return on non-U.S. plan assets from 5.78% to 5.49%, primarily as a result of our target asset allocations and expected long-term asset returns. As the expected rate of return on plan assets is long-term in nature, short-term market changes do not significantly impact the rate.

We expect that the net pension expense for our defined benefit pension plans included in earnings before income taxes will be approximately \$6 million lower in 2014 than the \$50.5 million in 2013, primarily due to the reduction in the amortization of the actuarial net loss. We have used discount rates of 4.50%, 4.22% and 4.00% at December 31, 2013, in calculating our estimated 2014 net pension expense for U.S. pension plans, non-U.S. pension plans and other postretirement plans, respectively.

The assumed ranges for the annual rates of increase in health care costs were 7.5% for 2013, 8.0% for 2012 and 8.5% for 2011, with a gradual decrease to 5.0% for 2032 and future years. If actual costs are higher than those assumed, this will likely put modest upward pressure on our expense for retiree health care.

Plan Funding

Our funding policy for defined benefit plans is to contribute at least the amounts required under applicable laws and local customs. Including direct benefits, we contributed \$46.9 million, \$28.1 million and \$27.0 million to our defined benefit plans in 2013, 2012 and 2011, respectively. After consideration of our intent to remain fully-funded based on standards set by law, we currently anticipate that our contribution to our U.S. pension plan in 2014 will be approximately \$20 million, excluding direct benefits paid. We expect to contribute approximately \$13 million to our non-U.S. pension plans in 2014, excluding direct benefits paid.

For further discussion of our pension and postretirement benefits, see Note 12 to our consolidated financial statements included in Item 8 of this Annual Report.

OUR CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based upon information available at the time of the estimates or assumptions, including our historical experience, where relevant. The most significant estimates made by management include: timing and amount of revenue recognition; deferred taxes, tax valuation allowances and tax reserves; reserves for contingent losses; pension and postretirement benefits; and valuation of goodwill, indefinite-lived intangible assets and other long-lived assets. The significant estimates are reviewed quarterly by management. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may differ from the estimates, and the difference may be material.

Our critical accounting policies are those policies that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following represent our critical accounting policies. For a summary of all of our significant accounting policies, see Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. Management and our external auditors have discussed our critical accounting estimates and policies with the Audit Committee of our Board of Directors.

Revenue Recognition

Revenues for product sales are recognized when the risks and rewards of ownership are transferred to the customers, which is typically based on the contractual delivery terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions. In addition, our policy requires persuasive evidence of an arrangement, a fixed or determinable sales price and reasonable assurance of collectability. We defer the recognition of revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in our consolidated statements of income. Our contracts typically include cancellation provisions that require customers to reimburse us for costs incurred up to the date of cancellation, as well as any contractual cancellation penalties.

We enter into certain agreements with multiple deliverables that may include any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services related to the performance of such products. Delivery of these products and services typically occurs within a one to two-year period, although many arrangements, such as "short-cycle" type orders, have a shorter timeframe for delivery. We separate deliverables into units of accounting based on whether the deliverable(s) have standalone value to the customer (impact of general rights of return is immaterial). Contract value is allocated ratably to the units of accounting in the arrangement based on their relative selling prices determined as if the deliverables were sold separately.

Revenues for long-term contracts that exceed certain internal thresholds regarding the size and duration of the project and provide for the receipt of progress billings from the customer are recorded on the percentage of completion method with progress measured on a cost-to-cost basis. Percentage of completion revenue represents less than 7% of our consolidated sales for each year presented.

Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered. Revenues generated under fixed fee service and repair contracts are recognized on a ratable basis over the term of the contract. These contracts can range in duration, but generally extend for up to five years. Fixed fee service contracts represent approximately 1% of consolidated sales for each year presented.

In certain instances, we provide guaranteed completion dates under the terms of our contracts. Failure to meet contractual delivery dates can result in late delivery penalties or non-recoverable costs. In instances where the payment of such costs are deemed to be probable, we perform a project profitability analysis, accounting for such costs as a reduction of realizable revenues, which could potentially cause estimated total project costs to exceed projected total revenues realized from the project. In such instances, we would record reserves to cover such excesses in the period they are determined. In circumstances where the total projected revenues still exceed total projected costs, the incurrence of penalties or non-recoverable costs generally reduces profitability of the project at the time of subsequent revenue recognition. Our reported results would change if different estimates were used for contract costs or if different estimates were used for contractual contingencies.

Deferred Taxes, Tax Valuation Allowances and Tax Reserves

We recognize valuation allowances to reduce the carrying value of deferred tax assets to amounts that we expect are more likely than not to be realized. Our valuation allowances primarily relate to the deferred tax assets established for certain tax credit carryforwards and net operating loss carryforwards for non-U.S. subsidiaries, and we evaluate the realizability of our deferred tax assets by assessing the related valuation allowance and by adjusting the amount of these allowances, if necessary. We assess such factors as our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets in determining the sufficiency of our valuation allowances. Failure to achieve forecasted taxable income in the applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in our effective tax rate on future earnings. Implementation of different tax structures in certain jurisdictions could, if successful, result in future reductions of certain valuation allowances.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various tax authorities. The consolidated tax provision and related accruals include the impact of such

reasonably estimable losses and related interest and penalties as deemed appropriate. Tax benefits recognized in the financial statements from uncertain tax positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

While we believe we have adequately provided for any reasonably foreseeable outcome related to these matters, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities. To the extent that the expected tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Reserves for Contingent Loss

Liabilities are recorded for various contingencies arising in the normal course of business when it is both probable that a loss has been incurred and such loss is estimable. Assessments of reserves are based on information obtained from our independent and in-house experts, including recent legal decisions and loss experience in similar situations. The recorded legal reserves are susceptible to changes due to new developments regarding the facts and circumstances of each matter, changes in political environments, legal venue and other factors. Recorded environmental reserves could change based on further analysis of our properties, technological innovation and regulatory environment changes. Estimates of liabilities for unsettled asbestos-related claims are based on known claims and on our experience during the preceding two years for claims filed, settled and dismissed, with adjustments for events deemed unusual and unlikely to recur. A substantial majority of our asbestos-related claims are covered by insurance or indemnities. Estimated indemnities and receivables from insurance carriers for unsettled claims and receivables for settlements and legal fees paid by us for asbestos-related claims are estimated using our historical experience with insurance recovery rates and estimates of future recoveries, which include estimates of coverage and financial viability of our insurance carriers. We have claims pending against certain insurers that, if resolved more favorably than estimated future recoveries, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to existing indemnities and insurance coverage. Changes in claims filed, settled and dismissed and differences between actual and estimated settlement costs and insurance or indemnity recoveries could impact future expense.

Pension and Postretirement Benefits

We provide pension and postretirement benefits to certain of our employees, including former employees, and their beneficiaries. The assets, liabilities and expenses we recognize and disclosures we make about plan actuarial and financial information are dependent on the assumptions and estimates used in calculating such amounts. The assumptions include factors such as discount rates, health care cost trend rates, inflation, expected rates of return on plan assets, retirement rates, mortality rates, turnover, rates of compensation increases and other factors. The assumptions utilized to compute expense and benefit obligations are shown in Note 12 to our consolidated financial statements included in Item 8 of this Annual Report. These assumptions are assessed annually in consultation with independent actuaries and investment advisors as of December 31 and adjustments are made as needed. We evaluate prevailing market conditions and local laws and requirements in countries where plans are maintained, including appropriate rates of return, interest rates and medical inflation (health care cost trend) rates. We ensure that our significant assumptions are within the reasonable range relative to market data. The methodology to set our significant assumptions includes:

Discount rates are estimated using high quality debt securities based on corporate or government bond yields with a duration matching the expected benefit payments. For the U.S. the discount rate is obtained from an analysis of publicly-traded investment-grade corporate bonds to establish a weighted average discount rate. For plans in the United Kingdom and the Eurozone we use the discount rate obtained from an analysis of AA-graded corporate bonds used to generate a yield curve. For other countries or regions without a corporate AA bond market, government bond rates are used. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.

The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected long-term performance of asset classes, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

The expected rates of compensation increase reflect estimates of the change in future compensation levels due to general price levels, seniority, age and other factors.

Depending on the assumptions used, the pension and postretirement expense could vary within a range of outcomes and have a material effect on reported earnings. In addition, the assumptions can materially affect benefit obligations and future cash funding. Actual results in any given year may differ from those estimated because of economic and other factors.

We evaluate the funded status of each retirement plan using current assumptions and determine the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations, cash flow

requirements and other factors. We discuss our funding assumptions with the Finance Committee of our Board of Directors.

45

Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets

The initial recording of goodwill and intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets. We test the value of goodwill and indefinite-lived intangible assets for impairment as of December 31 each year or whenever events or circumstances indicate such assets may be impaired.

The test for goodwill impairment involves significant judgment in estimating projections of fair value generated through future performance of each of the reporting units. The identification of our reporting units began at the operating segment level and considered whether components one level below the operating segment levels should be identified as reporting units for purpose of testing goodwill for impairment based on certain conditions. These conditions included, among other factors, (i) the extent to which a component represents a business and (ii) the aggregation of economically similar components within the operating segments and resulted in eight reporting units. Other factors that were considered in determining whether the aggregation of components was appropriate included the similarity of the nature of the products and services, the nature of the production processes, the methods of distribution and the types of industries served.

An impairment loss for goodwill is recognized if the implied fair value of goodwill is less than the carrying value. We estimate the fair value of our reporting units based on an income approach, whereby we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. A discounted cash flow analysis requires us to make various judgmental assumptions about future sales, operating margins, growth rates and discount rates, which are based on our budgets, business plans, economic projections, anticipated future cash flows and market participants. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We did not record an impairment of goodwill in 2013, 2012 or 2011. The fair values of our reporting units substantially exceeded their carrying values at December 31, 2013.

We also consider our market capitalization in our evaluation of the fair value of our goodwill. Our market capitalization increased as compared with 2012 and did not indicate a potential impairment of our goodwill as of December 31, 2013.

Impairment losses for indefinite-lived intangible assets are recognized whenever the estimated fair value is less than the carrying value. Fair values are calculated for trademarks using a "relief from royalty" method, which estimates the fair value of a trademark by determining the present value of estimated royalty payments that are avoided as a result of owning the trademark. This method includes judgmental assumptions about sales growth and discount rates that have a significant impact on the fair value and are substantially consistent with the assumptions used to determine the fair value of our reporting units discussed above. We did not record a material impairment of our trademarks in 2013, 2012 or 2011.

The recoverable value of other long-lived assets, including property, plant and equipment and finite-lived intangible assets, is reviewed when indicators of potential impairments are present. The recoverable value is based upon an assessment of the estimated future cash flows related to those assets, utilizing assumptions similar to those for goodwill. Additional considerations related to our long-lived assets include expected maintenance and improvements, changes in expected uses and ongoing operating performance and utilization.

Due to uncertain market conditions and potential changes in strategy and product portfolio, it is possible that forecasts used to support asset carrying values may change in the future, which could result in non-cash charges that would adversely affect our financial condition and results of operations.

ACCOUNTING DEVELOPMENTS

We have presented the information about accounting pronouncements not yet implemented in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have market risk exposure arising from changes in interest rates and foreign currency exchange rate movements. We are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, including interest rate swaps and forward exchange contracts, but we currently expect all counterparties will continue to meet their obligations given their current creditworthiness.

Interest Rate Risk

Our earnings are impacted by changes in short-term interest rates as a result of borrowings under our Senior Credit Facility, which bear interest based on floating rates. At December 31, 2013, after the effect of interest rate swaps, we had \$230.0 million of variable rate debt obligations outstanding under our Senior Credit Facility with a weighted average interest rate of 1.50%. A hypothetical change of 100 basis points in the interest rate for these borrowings, assuming constant variable rate debt levels, would have changed interest expense by \$2.3 million for the year ended December 31, 2013. At December 31, 2013 and 2012, we had

\$140.0 million and \$275.0 million, respectively, of notional amount in outstanding interest rate swaps with third parties with varying maturities through June 2015.

Foreign Currency Exchange Rate Risk

A substantial portion of our operations are conducted by our subsidiaries outside of the U.S. in currencies other than the U.S. dollar. The primary currencies in which we operate, in addition to the U.S. dollar, are the Argentine peso, Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, Colombian peso, Euro, Indian rupee, Japanese yen, Mexican peso, Singapore dollar, Swedish krona and Venezuelan bolivar. Almost all of our non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions, including firm commitments and anticipated transactions, denominated in a currency other than a non-U.S. subsidiary's functional currency. Generally, we view our investments in foreign subsidiaries from a long-term perspective and, therefore, do not hedge these investments. We use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. We realized net (losses) gains associated with foreign currency translation of \$(28.9) million, \$18.2 million and \$(56.8) million for the years ended December 31, 2013, 2012 and 2011, respectively, which are included in other comprehensive income (loss).

We employ a foreign currency risk management strategy to minimize potential changes in cash flows from unfavorable foreign currency exchange rate movements. Where available, the use of forward exchange contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the forward exchange contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. Our policy allows foreign currency coverage only for identifiable foreign currency exposures, and beginning in the fourth quarter of 2013 instruments that meet certain criteria are designated for hedge accounting. As of December 31, 2013, we had a U.S. dollar equivalent of \$616.9 million in aggregate notional amount outstanding in forward exchange contracts with third parties, compared with \$608.9 million at December 31, 2012.

Transactional currency gains and losses arising from transactions outside of our sites' functional currencies and changes in fair value of non-designated forward exchange contracts are included in our consolidated results of operations. We recognized foreign currency net (losses) gains of \$(12.6) million, \$(21.3) million and \$3.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, which are included in other (expense) income, net in the accompanying consolidated statements of income. See discussion of the impact in 2013 of the devaluation of the Venezuelan bolivar in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. Based on a sensitivity analysis at December 31, 2013, a 10% change in the foreign currency exchange rates for the year ended December 31, 2013 would have impacted our net earnings by approximately \$33 million, due primarily to the Euro. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency forward exchange contracts discussed above. Hedging related transactions for interest rate swaps and designated forward exchange contracts recorded to other comprehensive income (loss), net of deferred taxes, are summarized in Note 18 to our consolidated financial statements included in Item 8 of this Annual Report.

We expect to recognize losses of \$0.3 million, net of deferred taxes, into earnings in 2014, related to interest rate swap agreements based on their fair values at December 31, 2013.

ITEM 8. FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Flowserve Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Flowserve Corporation and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Dallas, Texas
February 18, 2014

48

FLOWSERVE CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(Amounts in thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$363,804	\$304,252
Accounts receivable, net	1,155,327	1,103,724
Inventories, net	1,060,670	1,086,663
Deferred taxes	157,448	151,093
Prepaid expenses and other	110,133	94,484
Total current assets	2,847,382	2,740,216
Property, plant and equipment, net	716,289	654,179
Goodwill	1,107,551	1,053,852
Deferred taxes	19,533	26,706
Other intangible assets, net	160,548	150,075
Other assets, net	185,430	185,930
Total assets	\$5,036,733	\$4,810,958
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$612,092	\$616,900
Accrued liabilities	861,010	906,593
Debt due within one year	72,678	59,478
Deferred taxes	12,319	7,654
Total current liabilities	1,558,099	1,590,625
Long-term debt due after one year	1,127,619	869,116
Retirement obligations and other liabilities	473,894	456,742
Commitments and contingencies (See Note 13)		
Shareholders' equity:		
Common shares, \$1.25 par value	220,991	220,991
Shares authorized — 305,000		
Shares issued — 176,793 and 176,793, respectively		
Capital in excess of par value	476,218	467,856
Retained earnings	2,985,391	2,579,308
Treasury shares, at cost — 39,630 and 32,389 shares, respectively	(1,600,266)	(1,164,496)
Deferred compensation obligation	9,522	10,870
Accumulated other comprehensive loss	(221,477)	(224,310)
Total Flowserve Corporation shareholders' equity	1,870,379	1,890,219
Noncontrolling interests	6,742	4,256
Total equity	1,877,121	1,894,475
Total liabilities and equity	\$5,036,733	\$4,810,958

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2013	2012	2011
	(Amounts in thousands, except per share data)		
Sales	\$4,954,619	\$4,751,339	\$4,510,201
Cost of sales	(3,266,524)	(3,170,388)	(2,996,555)
Gross profit	1,688,095	1,580,951	1,513,646
Selling, general and administrative expense	(966,829)	(922,125)	(914,080)
Net earnings from affiliates (Note 2)	39,017	16,952	19,111
Operating income	760,283	675,778	618,677
Interest expense	(54,413)	(43,520)	(36,181)
Interest income	1,431	954	1,581
Other (expense) income, net	(14,280)	(21,647)	3,678
Earnings before income taxes	693,021	611,565	587,755
Provision for income taxes	(204,701)	(160,766)	(158,524)
Net earnings, including noncontrolling interests	488,320	450,799	429,231
Less: Net earnings attributable to noncontrolling interests	(2,790)	(2,460)	(649)
Net earnings attributable to Flowserve Corporation	\$485,530	\$448,339	\$428,582
Net earnings per share attributable to Flowserve Corporation common shareholders:			
Basic	\$3.43	\$2.86	\$2.57
Diluted	3.41	2.84	2.55
Cash dividends declared per share	\$0.56	\$0.48	\$0.43

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2013	2012	2011
	(Amounts in thousands)		
Net earnings, including noncontrolling interests	\$488,320	\$450,799	\$429,231
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of taxes of \$17,351, \$(10,957) and \$34,397 in 2013, 2012 and 2011, respectively	(28,870	) 18,184	(56,842)
Pension and other postretirement effects, net of taxes of \$(20,218), \$8,655 and \$3,107 in 2013, 2012 and 2011, respectively	32,229	(26,983	) (8,490)
Cash flow hedging activity, net of taxes of \$(483), \$187 and \$186 in 2013, 2012 and 2011, respectively	(560	) 481	(307)
Other comprehensive income (loss)	2,799	(8,318	) (65,639)
Comprehensive income, including noncontrolling interests	491,119	442,481	363,592
Comprehensive income attributable to noncontrolling interests	(2,756	) (2,354	) (601)
Comprehensive income attributable to Flowserve Corporation	\$488,363	\$440,127	\$362,991

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Total Flowserve Corporation Shareholders' Equity									
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Deferred Compensation Obligation	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount			Shares	Amount				
(Amounts in thousands)										
Balance — January 1, 2011	176,793	\$ 220,991	\$ 466,534	\$ 1,848,680	(11,616)	\$(292,210)	\$ 9,533	\$(150,506)	\$ 10,011	\$ 2,113,000
Stock activity under stock plans	—	—	(30,657)	—	990	18,158	—	—	—	(12,499)
Stock-based compensation	—	—	32,067	23	—	—	—	—	—	32,090
Tax benefit associated with stock-based compensation	—	—	5,812	—	—	—	—	—	—	5,812
Net earnings	—	—	—	428,582	—	—	—	—	649	429,231
Cash dividends declared	—	—	—	(71,761)	—	—	—	—	—	(71,761)
Repurchases of common shares	—	—	—	—	(4,449)	(150,000)	—	—	—	(150,000)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(65,591)	(48)	(65,639)
Sale of shares to (dividends paid to) noncontrolling interests, net	—	—	—	—	—	—	—	—	(2,195)	(2,195)
Other, net	—	—	—	—	—	—	158	—	—	158
Balance — December 31, 2011	176,793	\$ 220,991	\$ 473,756	\$ 2,205,524	(15,075)	\$(424,052)	\$ 9,691	\$(216,097)	\$ 8,417	\$ 2,278,000
Stock activity under stock plans	—	—	(50,490)	—	1,326	31,498	—	—	—	(18,992)
Stock-based compensation	—	—	35,379	24	—	—	—	—	—	35,403
Tax benefit associated with stock-based compensation	—	—	11,024	—	—	—	—	—	—	11,024
Net earnings	—	—	—	448,339	—	—	—	—	2,460	450,799
Cash dividends declared	—	—	—	(74,579)	—	—	—	—	—	(74,579)
Repurchases of common shares	—	—	—	—	(18,639)	(771,942)	—	—	—	(771,942)

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Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(8,213	)	(105	)	(8,318
Purchase of shares from and dividends paid to noncontrolling interests	—	—	(1,813	)	—	—	—	—	—	(6,516	)	(8,329
Other, net	—	—	—	—	—	—	1,179	—	—	—	—	1,179
Balance —	—	—	—	—	—	—	—	—	—	—	—	—
December 31, 2012	176,793	\$220,991	\$467,856	\$2,579,308	(32,388)	\$(1,164,496)	\$10,870	\$(224,310)	\$4,256	\$1,894,310		
Stock activity under stock plans	—	—	(37,491	)	—	902	22,540	—	—	—	—	(14,951
Stock-based compensation	—	—	35,737	20	—	—	—	—	—	—	—	35,757
Tax benefit associated with stock-based compensation	—	—	10,116	—	—	—	—	—	—	—	—	10,116
Net earnings	—	—	—	485,530	—	—	—	—	—	2,790	—	488,320
Cash dividends declared	—	—	—	(79,467	)	—	—	—	—	—	—	(79,467
Repurchases of common shares	—	—	—	—	—	(8,144	)	(458,310	)	—	—	(458,310
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	2,833	(34	)	2,799
Purchase of shares from and dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	(270	)	(270
Other, net	—	—	—	—	—	—	—	(1,348	)	—	—	(1,348
Balance —	—	—	—	—	—	—	—	—	—	—	—	—
December 31, 2013	176,793	\$220,991	\$476,218	\$2,985,391	(39,630)	\$(1,600,266)	\$9,522	\$(221,477)	\$6,742	\$1,877,310		

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(Amounts in thousands)		
Cash flows — Operating activities:			
Net earnings, including noncontrolling interests	\$488,320	\$450,799	\$429,231
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	90,695	88,572	90,653
Amortization of intangible and other assets	15,697	18,654	16,908
Loss on amendment and early extinguishment of debt	439	1,293	—
Net loss (gain) on the disposition of assets	956	(10,521)	(149)
Gain on sale of equity investment in affiliate	(12,995)	—	—
Gain on remeasurement of acquired assets	(15,315)	—	—
Excess tax benefits from stock-based payment arrangements	(10,111)	(11,207)	(5,668)
Stock-based compensation	35,757	35,403	32,090
Net earnings from affiliates, net of dividends received	(6,168)	(8,535)	(5,213)
Change in assets and liabilities, net of acquisitions:			
Accounts receivable, net	(53,823)	(35,074)	(243,118)
Inventories, net	28,616	(72,706)	(139,754)
Prepaid expenses and other	(6,824)	(4,863)	(12,227)
Other assets, net	(18,002)	2,393	(3,629)
Accounts payable	(12,331)	18,179	45,845
Accrued liabilities and income taxes payable	(65,702)	90,773	(6,901)
Retirement obligations and other liabilities	(3,145)	(21,553)	6,682
Net deferred taxes	31,695	(24,477)	13,463
Net cash flows provided by operating activities	487,759	517,130	218,213
Cash flows — Investing activities:			
Capital expenditures	(139,090)	(135,539)	(107,967)
Payments for acquisitions, net of cash acquired	(76,801)	(3,996)	(90,505)
Proceeds from disposal of assets	1,653	16,933	4,269
Proceeds from (contributions to) equity investments in affiliates	46,240	(3,825)	—
Net cash flows used by investing activities	(167,998)	(126,427)	(194,203)
Cash flows — Financing activities:			
Excess tax benefits from stock-based payment arrangements	10,111	11,207	5,668
Payments on long-term debt	(25,000)	(480,000)	(25,000)
Proceeds from issuance of senior notes	298,596	498,075	—
Proceeds from issuance of long-term debt	—	400,000	—
Payments of deferred loan costs	(3,744)	(9,901)	—
Borrowings under other financing arrangements, net	(401)	5,807	1,581
Repurchases of common shares	(458,310)	(771,942)	(150,000)
Payments of dividends	(76,897)	(73,765)	(69,557)
Other	(179)	(8,403)	(1,648)
Net cash flows used by financing activities	(255,824)	(428,922)	(238,956)
Effect of exchange rate changes on cash	(4,385)	5,115	(5,277)
Net change in cash and cash equivalents	59,552	(33,104)	(220,223)
Cash and cash equivalents at beginning of year	304,252	337,356	557,579
Cash and cash equivalents at end of year	\$363,804	\$304,252	\$337,356
Income taxes paid (net of refunds)	\$195,532	\$158,433	\$113,921

Interest paid	43,506	33,625	32,368
See accompanying notes to consolidated financial statements.			

FLOWSERVE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013 AND 2012 AND FOR THE
THREE YEARS ENDED DECEMBER 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING DEVELOPMENTS

We are principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. We provide long lead time, custom and other highly-engineered pumps; standardized, general-purpose pumps; mechanical seals; industrial valves; and related automation products and solutions primarily for oil and gas, chemical, power generation, water management and other general industries requiring flow management products and services. Equipment manufactured and serviced by us is predominantly used in industries that deal with difficult-to-handle and corrosive fluids, as well as environments with extreme temperatures, pressure, horsepower and speed. Our business is affected by economic conditions in the United States ("U.S.") and other countries where our products are sold and serviced, by the cyclical nature and competitive environment of our industries served, by the relationship of the U.S. dollar to other currencies and by the demand for and pricing of our customers' end products.

Stock Split — On June 7, 2013 we recorded a three-for-one stock split. Shareholders' equity and all share data, including treasury shares and stock-based compensation award shares, and per share data presented herein have been retrospectively adjusted to reflect the impact of the increase in authorized shares and the stock split, as appropriate. Details of the stock split are included in Note 15.

Venezuela — Effective February 13, 2013, the Venezuelan government devalued its currency (bolivar) from 4.3 to 6.3 bolivars to the U.S. dollar. Our operations in Venezuela generally consist of a service center that performs service and repair activities. In addition, certain of our operations in other countries sell equipment and parts that are typically denominated in U.S. dollars directly to Venezuelan customers. Our Venezuelan subsidiary's sales for the year ending December 31, 2013 and total assets at December 31, 2013 represented less than 1% of consolidated sales and total assets for the same periods.

As a result of the devaluation, we recognized a loss of \$4.0 million in the first quarter of 2013. The loss was reported in other (expense) income, net in our consolidated statements of income and resulted in no tax benefit. We have evaluated the carrying value of related assets and concluded that there is no current impairment. We are continuing to monitor actions of the Venezuelan government and local economic conditions that may adversely impact our future consolidated financial condition or results of operations, including impacts on our Venezuelan operations, imports into the market and our Venezuelan subsidiary's ability to remit cash for dividends and other payments at the official rate.

Principles of Consolidation — The consolidated financial statements include the accounts of our company and our wholly and majority-owned subsidiaries. In addition, we would consolidate any variable interest entities for which we are deemed to be the primary beneficiary. Noncontrolling interests of non-affiliated parties have been recognized for all majority-owned consolidated subsidiaries. Intercompany profits/losses, transactions and balances among consolidated entities have been eliminated from our consolidated financial statements. Investments in unconsolidated affiliated companies, which represent noncontrolling ownership interests between 20% and 50%, are accounted for using the equity method, which approximates our equity interest in their underlying equivalent net book value under accounting principles generally accepted in the U.S. ("U.S. GAAP"). Investments in interests where we own less than 20% of the investee are accounted for by the cost method, whereby income is only recognized in the event of dividend receipt. Investments accounted for by the cost method are tested for impairment if an impairment indicator is present.

Use of Estimates — The process of preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. We believe our estimates and assumptions are reasonable; however, actual results may differ materially from such estimates. The most significant estimates and assumptions are used in determining:

- Revenue recognition, net of liquidated damages and other delivery penalties;
- Income taxes, deferred taxes, tax valuation allowances and tax reserves;
- Reserves for contingent loss;
- Retirement and postretirement benefits; and

Valuation of goodwill, indefinite-lived intangible assets and other long-lived assets.

Revenue Recognition — Revenues for product sales are recognized when the risks and rewards of ownership are transferred to the customers, which is typically based on the contractual delivery terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions. In addition, our policy requires persuasive evidence of an arrangement, a fixed or

determinable sales price and reasonable assurance of collectability. We defer the recognition of revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in our consolidated statements of income. Our contracts typically include cancellation provisions that require customers to reimburse us for costs incurred up to the date of cancellation, as well as any contractual cancellation penalties.

We enter into certain agreements with multiple deliverables that may include any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services related to the performance of such products. Delivery of these products and services typically occurs within a one to two-year period, although many arrangements, such as "short-cycle" type orders, have a shorter timeframe for delivery. We separate deliverables into units of accounting based on whether the deliverable(s) have standalone value to the customer (impact of general rights of return is immaterial). Contract value is allocated ratably to the units of accounting in the arrangement based on their relative selling prices determined as if the deliverables were sold separately.

Revenues for long-term contracts that exceed certain internal thresholds regarding the size and duration of the project and provide for the receipt of progress billings from the customer are recorded on the percentage of completion method with progress measured on a cost-to-cost basis. Percentage of completion revenue represents less than 7% of our consolidated sales for each year presented.

Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered. Revenues generated under fixed fee service and repair contracts are recognized on a ratable basis over the term of the contract. These contracts can range in duration, but generally extend for up to five years. Fixed fee service contracts represent approximately 1% of consolidated sales for each year presented.

In certain instances, we provide guaranteed completion dates under the terms of our contracts. Failure to meet contractual delivery dates can result in late delivery penalties or non-recoverable costs. In instances where the payment of such costs are deemed to be probable, we perform a project profitability analysis, accounting for such costs as a reduction of realizable revenues, which could potentially cause estimated total project costs to exceed projected total revenues realized from the project. In such instances, we would record reserves to cover such excesses in the period they are determined. In circumstances where the total projected revenues still exceed total projected costs, the incurrence of penalties or non-recoverable costs generally reduces profitability of the project at the time of subsequent revenue recognition.

Cash and Cash Equivalents — We place temporary cash investments with financial institutions and, by policy, invest in those institutions and instruments that have minimal credit risk and market risk. These investments, with an original maturity of three months or less when purchased, are classified as cash equivalents. They are highly liquid and principal values are not subject to significant risk of change due to interest rate fluctuations.

Allowance for Doubtful Accounts and Credit Risk — The allowance for doubtful accounts is established based on estimates of the amount of uncollectible accounts receivable, which is determined principally based upon the aging of the accounts receivable, but also customer credit history, industry and market segment information, economic trends and conditions and credit reports. Customer credit issues, customer bankruptcies or general economic conditions may also impact our estimates.

Credit risks are mitigated by the diversity of our customer base across many different geographic regions and industries and by performing creditworthiness analyses on our customers. Additionally, we mitigate credit risk through letters of credit and advance payments received from our customers. As of December 31, 2013 and 2012, although we have experienced increased aging and slower collection of certain receivables in Latin America during 2013 we do not believe that we have any significant concentrations of credit risk.

Inventories and Related Reserves — Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Reserves for excess and obsolete inventories are based upon our assessment of market conditions for our products determined by historical usage and estimated future demand. Due to the long life cycles of our products, we carry spare parts inventories that have historically low usage rates and provide reserves for such inventory based on demonstrated usage and aging criteria.

Income Taxes, Deferred Taxes, Tax Valuation Allowances and Tax Reserves — We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We record valuation allowances

to reflect the estimated amount of deferred tax assets that may not be realized based upon our analysis of existing deferred tax assets, net operating losses and tax credits by jurisdiction and expectations of our ability to utilize these tax attributes through a review of past, current and estimated future taxable income and establishment of tax strategies. We provide deferred taxes for the temporary differences associated with our investment in foreign subsidiaries that have a financial reporting basis that exceeds tax basis, unless we can assert permanent reinvestment in foreign jurisdictions. Financial reporting basis and tax basis differences in investments in foreign subsidiaries consist of both unremitted earnings and losses, as well as foreign currency translation adjustments.

The amount of income taxes we pay is subject to ongoing audits by federal, state, and foreign tax authorities, which often result in proposed assessments. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various tax authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Legal and Environmental Contingencies — Legal and environmental reserves are recorded based upon a case-by-case analysis of the relevant facts and circumstances and an assessment of potential legal obligations and costs. Amounts relating to legal and environmental liabilities are recorded when it is probable that a loss has been incurred and such loss is estimable. Assessments of legal and environmental costs are based on information obtained from our independent and in-house experts and our loss experience in similar situations. Estimates are updated as applicable when new information regarding the facts and circumstances of each matter becomes available. Legal fees associated with legal and environmental liabilities are expensed as incurred.

Estimates of liabilities for unsettled asbestos-related claims are based on known claims and on our experience during the preceding two years for claims filed, settled and dismissed, with adjustments for events deemed unusual and unlikely to recur, and are included in retirement obligations and other liabilities in our consolidated balance sheets. A substantial majority of our asbestos-related claims are covered by insurance or indemnities. Estimated indemnities and receivables from insurance carriers for unsettled claims and receivables for settlements and legal fees paid by us for asbestos-related claims are estimated using our historical experience with insurance recovery rates and estimates of future recoveries, which include estimates of coverage and financial viability of our insurance carriers. Estimated receivables are included in other assets, net in our consolidated balance sheets. We have claims pending against certain insurers that, if resolved more favorably than estimated future recoveries, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to existing indemnities and insurance coverage.

Warranty Accruals — Warranty obligations are based upon product failure rates, materials usage, service delivery costs, an analysis of all identified or expected claims and an estimate of the cost to resolve such claims. The estimates of expected claims are generally a factor of historical claims and known product issues. Warranty obligations based on these factors are adjusted based on historical sales trends for the preceding 24 months.

Insurance Accruals — Insurance accruals are recorded for wholly or partially self-insured risks such as medical benefits and workers' compensation and are based upon an analysis of our claim loss history, insurance deductibles, policy limits and other relevant factors that are updated annually and are included in accrued liabilities in our consolidated balance sheets. The estimates are based upon information received from actuaries, insurance company adjusters, independent claims administrators or other independent sources. Receivables from insurance carriers are estimated using our historical exp