

FLOWSERVE CORP
Form 10-Q/A
July 08, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

**ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE QUARTER ENDED MARCH 31, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

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)

75039

(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act). Yes No

Shares of Common Stock, \$1.25 par value,

outstanding as of May 5, 2003

55,231,951

FLOWSERVE CORPORATION

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EXPLANATORY NOTE

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On February 3, 2004, we announced we would restate our financial results for the nine months ended September 30, 2003 and full years 2002, 2001 and 2000. On April 27, 2004, we filed a Form 10-K/A for the years ended December 31, 2002, 2001 and 2000 to restate our financial results for these full years. The restatement predominantly corrects inventory and related balances and cost of sales. For additional discussion regarding the restatement adjustments, see Restatement in Note 2 of the consolidated financial statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this quarterly report on Form 10-Q/A for the quarter ended March 31, 2003 (the Form 10-Q/A).

This Form 10-Q/A is being filed to amend and restate our Form 10-Q for the quarter ended March 31, 2003 (the Original Form 10-Q) as a result of the restatement and comments received from the Division of Corporate Finance of the Securities and Exchange Commission. Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, this Form 10-Q/A contains the complete text of the amended and restated items.

Items being restated and amended by this Form 10-Q/A that contained forward-looking information in the Original Form 10-Q have been updated for periods that are now historical. Other than updating those forward-looking statements and legal proceedings, we have not updated the information contained in this Form 10-Q/A for events or transactions occurring after May 9, 2003, the filing date of the Original Form 10-Q. Events and transactions have taken place since May 9, 2003 that would have been disclosed in the Original Form 10-Q had such events taken place prior to May 9, 2003. As a result, we recommend that you read this Form 10-Q/A in conjunction with our reports under the Securities Exchange Act of 1934 filed after May 9, 2003.

All amounts referenced in this Form 10-Q/A for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

In addition to this Form 10-Q/A, we will file amendments to our quarterly reports on Form 10-Q/A for the quarters ending June 30 and September 30, 2003.

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	(Restated)	(Restated)
Net earnings	\$ 7,479	\$ 8,987
Other comprehensive income (expense):		
Foreign currency translation adjustments	5,556	(7,582)
Cash flow hedging activity, net of tax effects	(216)	862
Other comprehensive income (expense)	5,340	(6,720)
Comprehensive income	\$ 12,819	\$ 2,267

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	March 31, 2003 (Restated) (Unaudited)	December 31, 2002 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,467	\$ 49,245
Accounts receivable, net	491,419	490,423
Inventories	423,056	419,218
Deferred taxes	37,109	26,069
Prepaid expenses	34,153	29,544
Total current assets	1,024,204	1,014,499
Property, plant and equipment, net	456,623	463,698
Goodwill	842,000	842,621
Other intangible assets, net	174,469	176,497
Other assets	98,549	119,747
Total assets	\$ 2,595,845	\$ 2,617,062
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 219,343	\$ 233,505
Accrued liabilities	250,836	239,197
Long-term debt due within one year	31,600	38,610
Total current liabilities	501,779	511,312
Long-term debt due after one year	1,045,754	1,055,748
Retirement benefits and other liabilities	314,400	328,719
Shareholders' equity:		
Serial preferred stock, \$1.00 par value, 1,000 shares authorized, no shares issued		
Common shares, \$1.25 par value	72,018	72,018
Shares authorized 120,000		
Shares issued 57,614		
Capital in excess of par value	477,999	477,635
Retained earnings	397,564	390,085
	947,581	939,738
Treasury stock, at cost 2,819 and 2,794 shares	(64,317)	(63,809)
Deferred compensation obligation	7,289	7,332
Accumulated other comprehensive loss	(156,641)	(161,978)
Total shareholders' equity	733,912	721,283
Total liabilities and shareholders' equity	\$ 2,595,845	\$ 2,617,062

See accompanying notes to consolidated financial statements.

FLOWERVE CORPORATION

(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Three Months Ended March 31,	
	2003 (Restated)	2002 (Restated)
Cash flows Operating activities:		
Net earnings	\$ 7,479	\$ 8,987
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	15,483	11,637
Amortization	2,559	1,377
Amortization of prepaid financing fees and discount	1,242	1,385
Loss on optional prepayments of debt	159	
Net gain on the disposition of fixed assets	(47)	(390)
Change in assets and liabilities:		
Accounts receivable	6,782	12,876
Inventories	237	(2,860)
Prepaid expenses	(9,279)	4,214
Other assets	(1,214)	(2,649)
Accounts payable	(18,809)	12,236
Accrued liabilities	(7,508)	(15,529)
Income taxes payable	7,505	3,715
Retirement benefits and other liabilities	3,628	1,087
Net deferred taxes	5,358	(6,630)
Net cash flows provided by operating activities	13,575	29,456
Cash flows Investing activities:		
Capital expenditures	(5,536)	(6,109)
Cash received for disposal of assets		1,125
Net cash flows used by investing activities	(5,536)	(4,984)
Cash flows - Financing activities:		
Net repayments under lines of credit		(28,000)
Payments of long-term debt	(20,000)	(8,411)
Net proceeds from stock option activity		10,251
Other		(163)
Net cash flows used by financing activities	(20,000)	(26,323)
Effect of exchange rate changes	1,183	(1,047)
Net change in cash and cash equivalents	(10,778)	(2,898)
Cash and cash equivalents at beginning of year	49,245	21,500
Cash and cash equivalents at end of period	\$ 38,467	\$ 18,602

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

Note 1. Basis of Presentation and Accounting Policies

Basis of Presentation

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The accompanying consolidated balance sheet as of March 31, 2003, and the related consolidated statements of operations and comprehensive income/(loss) for the three months ended March 31, 2003 and 2002, and the consolidated statements of cash flows for the three months ended March 31, 2003 and 2002, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such consolidated financial statements have been made.

The accompanying consolidated financial statements and notes in this Form 10-Q/A are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with our original 2002 Annual Report on Form 10-K and our amended 2002 Annual Report on Form 10-K/A. Interim results are not necessarily indicative of results to be expected for a full year.

Stock-Based Compensation

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We have several stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Currently, no stock-based employee compensation cost is reflected in net earnings for stock option grants, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the grant date.

Awards of restricted stock are generally valued at the market price of our common stock on the grant date and recorded as unearned compensation within shareholder's equity. The unearned compensation is amortized to compensation expense over the vesting period of the restricted stock.

The following table illustrates the effect on net earnings and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, calculated using the Black-Scholes option-pricing model.

	Quarter Ended March 31,	
	2003	2002
Net earnings, as reported	\$ 7,479	\$ 8,987
Restricted stock compensation expense included in net earnings, net of related tax effects	62	203
Less: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(588)	(761)
Pro forma net earnings	\$ 6,953	\$ 8,429
Earnings per share (basic):		
As reported	\$.14	\$.20
Pro forma	\$.13	\$.19
Earnings per share (diluted):		
As reported	\$.14	\$.20
Pro forma	\$.13	\$.18

Because the determination of the fair value of all options granted includes an expected volatility factor and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects for future years.

Other Accounting Policies

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Our significant accounting policies, for which no changes have occurred in the quarter ended March 31, 2003, are detailed in Note 1 of our amended 2002 Annual Report on Form 10-K/A.

Note 2. Restatement

On February 3, 2004, we announced our intention to restate our unaudited financial results for the nine months ended September 30, 2003 and the full years (and related unaudited quarterly data) for 2002, 2001 and 2000 as a result of identifying certain adjustments required to properly state these periods. The accompanying restated consolidated financial statements reflect adjustments made to previously reported financial statements for the quarters ended March 31, 2003 and 2002 and the balance sheets at March 31, 2003 and December 31, 2002. The restatement, primarily affecting our pump and valve segments, principally relates to correcting: inventory amounts and related cost of sales; various non-inventory account balances; the computation of the full year 2002 income tax provision; and the classification of various balance sheet accounts. The restatement reduced originally reported earnings before income taxes by \$1.2 million and \$5.8 million for the quarters ended March 31, 2003 and 2002, respectively.

Inventory and Cost of Sales Adjustments

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The inventory and cost of sales adjustments primarily resulted from reconciliation issues at two of our reporting locations due to difficulties associated with converting to new computer systems, including adjustments for certain inappropriate accounting entries made without proper substantiation. The difficulties in executing the conversions and related reconciliation issues resulted in inventory amounts not being properly charged to cost of sales in the appropriate periods. These adjustments increased reported earnings before taxes by an aggregate \$0.1 million for the quarter ended March 31, 2003 and reduced reported earnings before taxes by \$5.7 million for the quarter ended March 31, 2002. Additionally, we restated for adjustments to cost of sales resulting from inventory and related account reconciliations at a limited number of other locations which reduced reported earnings before income taxes by \$1.1 million for the quarter ended March 31, 2003 and increased reported earnings before income taxes by \$0.2 million for the quarter ended March 31, 2002.

Other Adjustments

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The restatement reduced reported earnings before income taxes by \$0.2 million and \$0.3 million for the quarters ended March 31, 2003 and 2002, respectively, for adjustments identified during the reconciliation of cash, intercompany transactions, investments in affiliates, equipment and accrued liabilities balances as well as foreign exchange transactions.

Tax Adjustments

The restatement includes the tax effects of the aforementioned adjustments.

Balance Sheet Adjustments

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We have restated amounts within the balance sheet accounts to appropriately classify tax assets and liabilities, including the establishment of deferred taxes related to the currency translation adjustment account.

We also intend to restate our unaudited financial results for the quarters ended June 30, 2003 and September 30, 2003 to adjust for the aforementioned entries not being recognized in the appropriate periods, including adjustments for certain inappropriate accounting entries made without proper substantiation.

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The following table sets forth the effects of the restatement adjustments discussed above on the Consolidated Statement of Operations for the quarters ended March 31, 2003 and 2002:

Increase (decrease) in net earnings (Amounts in millions, except per share amounts)	Quarter ended March 31,	
	2003	2002
Net earnings - as previously reported	\$ 8.2	\$ 12.7
Adjustments (pretax):		
Cost of sales adjustments	(1.0)	(5.5)
Other adjustments	(0.2)	(0.3)
Total adjustments (pretax)	(1.2)	(5.8)
Tax effect	0.5	2.1