

FLOWSERVE CORP
Form DEF 14A
April 13, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

FLOWSERVE CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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5215 N. O Connor Blvd., Suite 2300
Irving, Texas 75039
April 13, 2007

NOTICE OF 2007 ANNUAL MEETING
OF SHAREHOLDERS

The 2007 Annual Meeting of Shareholders of Flowserve Corporation (the Company) will be held on May 17, 2007 at 11:00 a.m., local time, at the Flowserve Corporation Learning Center, 4343 West Royal Lane, Irving, Texas 75063. If you were a shareholder of record of the Company's common stock at the close of business on March 30, 2007, you are entitled to notice of and to vote at the annual meeting.

At this meeting the Company will ask you to:

- elect three directors, each to serve a term expiring at the 2010 annual meeting of shareholders;
- approve the Company's 2007 Annual Incentive Plan, a performance-based cash incentive plan;
- approve the Company's 2007 Long-Term Incentive Plan, a performance-based stock incentive plan; and
- attend to other business properly presented at the meeting.

Approval of these performance-based incentive plans will enable the Company to effectively continue its annual cash and equity long-term incentive programs for management, but with previously unavailable federal tax benefits.

No new shares of common stock will be authorized if the Long-Term Incentive Plan is approved. This plan will use shares previously authorized by shareholders who approved the Company's 2004 Stock Compensation Plan.

The enclosed proxy statement contains other important information which you should read and consider before you vote.

Your vote is important. Whether or not you plan to attend the meeting in person, the Company requests your vote. Please vote by completing and mailing the proxy card in the enclosed envelope or using the telephone or Internet. Thank you in advance for voting.

By Order of the Board of Directors,

Tara D. Mackey
Vice President, Assistant Secretary and Compliance Counsel

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FLOWSERVE CORPORATION
5215 N. O Connor Blvd., Suite 2300 Irving, Texas 75039

2007 ANNUAL MEETING OF SHAREHOLDERS PROXY STATEMENT

SOLICITATION

We are providing these proxy materials in connection with the solicitation by the Board of Directors (the Board) of Flowserve Corporation, a New York corporation (the Company), of proxies to be voted at the 2007 annual meeting of shareholders, which is being held on May 17, 2007 and at any adjournment or postponement. This proxy statement and form of proxy are first being mailed to shareholders on or about April 20, 2007.

This proxy statement and the enclosed proxy card contain information about the election of directors that you may vote on at the annual meeting. It also contains information about the proposed shareholder approval of the Company's Annual Incentive Plan and Long-Term Incentive Plan, which is more fully described beginning on page 59.

VOTING

Who May Vote and Number of Votes

If you are a shareholder of record at the close of business on March 30, 2007, you may vote on the matters discussed herein. You have one vote for each share you own.

How to Vote

Voting by Proxy Holders for Shares Registered in the Name of a Brokerage Firm or Bank. If your shares are held by a broker, bank or other nominee (i.e., in street name), you will receive instructions from your nominee, which you must follow in order to have your shares voted.

Voting by Proxy Holder for Shares Registered Directly in the Name of Shareholder. If you hold your shares in your own name as a holder of record, you must instruct the proxy holders named in the enclosed proxy card how to vote your shares by using the toll-free telephone number or the Internet website set forth below or by signing, dating and mailing the enclosed proxy card to National City Bank in the enclosed envelope. Each of these voting methods is described below:

Vote by Telephone. If you hold your shares in your name as a holder of record, you may vote by telephone by calling toll-free to **1-888-693-8683** from the United States and Canada and following the series of voice instructions that will direct you how to vote your shares. Have your proxy card available when you place your telephone call. Telephone voting is available 24 hours a day, 7 days a week until 6:00 a.m., Eastern Time, on May 17, 2007. **IF YOU VOTE BY TELEPHONE, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

Vote by Internet. You have the option to vote via the Internet at the following address: **www.cesvote.com** by following the on-screen instructions that will direct you how to vote your shares. Internet voting is available 24 hours a day, 7 days a week until 6:00 a.m., Eastern Time, on May 17, 2007. Have your proxy card available when you access the Internet website. **IF YOU VOTE BY INTERNET, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

Vote by Mail. If you would like to vote by mail, mark the enclosed proxy card, sign and date it and return it to National City Bank in the enclosed envelope.

Vote in Person. If you are a registered shareholder and attend the annual meeting, you may deliver your completed proxy card in person. street name shareholders who wish to vote at the meeting will need to obtain a proxy from the broker, bank or other nominee that holds their shares.

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Changing Your Vote

You may revoke your proxy at any time before it has been exercised by:

- mailing in a revised proxy dated later than the prior proxy submitted,
- notifying the Corporate Secretary in writing that you are revoking your proxy,
- casting a new vote by telephone or the Internet, or
- appearing in person and voting by ballot at the annual meeting.

Quorum for the Meeting

A majority of the outstanding shares, present or represented by proxy, constitutes a quorum. A quorum is necessary to conduct business at the annual meeting. You are part of the quorum if you have voted by proxy. Shares that the holder abstains from voting on a particular proposal count at the meeting for purposes of determining a quorum.

Broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker holding shares in street name for a beneficial owner is represented in person or by proxy at the meeting but does not vote on a particular proposal because the broker does not have discretionary voting power for that particular proposal and has not received instructions from the beneficial owner.

Counting of Votes

Only votes cast count in the voting results and withheld votes are not considered votes cast. Directors are elected by a plurality of votes cast. Under the rules of the New York Stock Exchange (NYSE), brokers may, at their discretion with respect to certain routine matters, vote shares they hold in street name on behalf of beneficial owners who have not returned voting instructions to the brokers. Routine matters include the election of directors. Broker non-votes on a particular proposal will not constitute votes cast with respect to such proposal.

At the close of business on March 30, 2007, the record date for the annual meeting, the Company had 57,046,483 shares of common stock issued and outstanding (excluding treasury shares) which may be voted.

Cost of Proxy Solicitation

The Company pays the cost of soliciting proxies. Brokerage firms and other custodians, nominees and fiduciaries are reimbursed by the Company for the reasonable out-of-pocket expenses that they incur to send proxy materials to shareholders and solicit their votes.

Shareholder Proposals

The Company's 2008 annual meeting of shareholders is tentatively scheduled to be held on May 15, 2008. If the meeting is held on that date, advance notice of any nominations for directors sought to be presented at that meeting must be given by March 26, 2008. Notice of all other proposals sought to be presented at the Company's 2008 annual meeting must be given by March 6, 2008. If proper notice is not timely given, the proxy statement with respect to the 2008 annual meeting may grant discretionary authority to the proxies named therein to vote on such proposals.

In order to be considered for inclusion in the proxy material for that meeting, shareholder proposals must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and must be received by the Assistant Corporate Secretary no later than December 22, 2007. All shareholder proposals (including director nominations) submitted to the Assistant Corporate Secretary must be in accordance with the Company's By-

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Laws and delivered to the Company's address noted below:

FlowsERVE Corporation
5215 N. O'Connor Blvd., Suite 2300
Irving, Texas 75039
Attention: Assistant Corporate Secretary

See the discussion on page 11 of this proxy statement titled "Shareholder Nominations for Director" for information regarding nominating a person to serve on the Board.

Voting by Participants in the FlowsERVE Corporation Retirement Savings Plan

If you are a participant in the FlowsERVE Corporation Retirement Savings Plan, the proxy card serves as a voting instruction to the trustee for the plan. The proxy card indicates the number of shares of common stock credited to your account under the plan as of the record date for voting at the meeting.

If you sign and return your proxy card on time, the trustee will vote the shares as you have directed.

If you do not return your proxy card, or if you return your proxy card late, the trustee will vote your shares in the same proportion as the shares voted by participants who timely return their cards to the trustee.

Vote Tabulations

Votes are counted by National City Bank, the Company's independent transfer agent and registrar. National City Bank is the inspector of elections for the annual meeting.

PROPOSAL NUMBER ONE: ELECTION OF DIRECTORS

The Board has nominated for re-election Christopher A. Bartlett and William C. Rusnack, two members of the class of directors whose terms of offices are expiring. The Board also nominated Rick J. Mills for election to the Board for the same term. Each individual is nominated to serve for a new term that will end at the 2010 annual meeting of shareholders.

The individuals named as proxies on the enclosed proxy card will vote your proxy for the election of these nominees unless you withhold authority to vote for any one or more of them. If any director is unable to stand for re-election, the Board may reduce the number of directors or choose a substitute.

Hugh K. Coble and George T. Haymaker, Jr., current members of our Board whose terms expire at the upcoming annual meeting, having reached the ages of 72 and 69, respectively, are not standing for re-election at the annual meeting. Instead, they will retire from the Board upon expiration of their terms, pursuant to Board policy. We thank Messrs. Coble and Haymaker for their years of exemplary service on the Board.

Recommendation

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE NOMINEES LISTED ON THE FOLLOWING PAGE.

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Nominees to Serve a Term Expiring at the 2010 Annual Meeting of Shareholders

Christopher A. Bartlett, age 63, has served as a director since 2002 and serves as Chairman of the Organization and Compensation Committee and as a member of the Corporate Governance and Nominating Committee. He also served as director of the Company from 1988 to 1993. Dr. Bartlett is an Emeritus Professor of Business Administration at Harvard University. Prior to his academic career, he was a general manager of Baxter Travenol's French subsidiary and a consultant at McKinsey & Co. Currently, Dr. Bartlett serves as a Chief Executive Officer advisor and management consultant on international strategic and organizational issues to several major corporations.

William C. Rusnack, age 62, has served as a director since 1997 and serves as a member of the Audit Committee. He is currently a private investor and independent corporate director. Mr. Rusnack was President, Chief Executive Officer, Chief Operating Officer and director of Premcor Inc. at various times from 1998 to 2002. Before joining Premcor, Mr. Rusnack served for 31 years with Atlantic Richfield Company, (ARCO), an integrated petroleum company, most recently as Senior Vice President of ARCO from 1990 to 1998 and President of ARCO Products Company from 1993 to 1998. He is also a director and member of the Audit and Executive Committees, as well as Chairman of the Compensation Committee of Sempra Energy, an energy services company and a director and member of the Executive Committee, as well as Chairman of the Audit Committee of Peabody Energy, a coal mining company.

Rick J. Mills, age 59, is currently a Vice President of Cummins Inc., a manufacturer of large diesel engines and President of the Components Group at Cummins Inc. He was Vice President and President Filtration Business from 2000 to 2005 and held other key management positions from 1970 to 2000. Mr. Mills is also a director and member of the Audit Committee and Nominating and Governance Committee of Rohm and Haas, a global company producing specialty polymers and biologically active compounds.

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Directors Serving a Term Expiring at the 2009 Annual Meeting of Shareholders

Roger L. Fix, age 53, was elected as director in April 2006 and serves as a member of the Organization and Compensation Committee. Mr. Fix is the Chief Executive Officer of Standex International Corporation (Standex), a publicly traded diversified manufacturing and marketing company. He has been its Chief Executive Officer since 2003, President since 2001 and director since 2001. He was its Chief Operating Officer from 2001 to 2002. He is also a member of Standex 's Executive Committee since 2003. Before joining Standex, he was employed by Outboard Marine Corporation, a marine manufacturing company, as Chief Executive Officer and President from 2000 to 2001 and Chief Operating Officer and President during 2000. He served as its director from 2000 to 2001. He served as Chief Executive of John Crane Inc., a global manufacturer of mechanical seals for pump and compressor applications in the process industry, from 1998 to 2000 and as its President - North America from 1996 to 1998. He was President of Xomox Corporation, a manufacturer of process control valves and actuators, from 1993 to 1996. He was also employed by Reda Pump Company, a manufacturer of electrical submersible pumping systems for oil production, from 1981 to 1993, most recently as Vice President and General Manager/Eastern Division. He was also employed by Fisher Controls Company, a manufacturer of process control valves and pneumatic and electronic instrumentation, from 1976 to 1981.

Diane C. Harris, age 64, has served as a director since 1993 and serves as a member of the Finance Committee. She is President of Hypotenuse Enterprises, Inc., a mergers and acquisitions service and corporate development outsourcing company. Ms. Harris was Vice President of Corporate Development of Bausch & Lomb Incorporated, an optics and health care products company, from 1981 to 1996, when she left to form Hypotenuse Enterprises, Inc. as its President. She was a director of the Association for Corporate Growth from 1993 to 1998 and its elected President from 1997 to 1998. Ms. Harris is also a director of the Monroe Fund, an investment company.

Lewis M. Kling, age 62, has served as President, Chief Executive Officer and as a director since 2005. He served as Chief Operating Officer from 2004 to 2005. Before joining the Company, he served as Group President and Corporate Vice President of SPX Corporation from 1999 to 2004 and as a member of the Board of Directors of Inrange Technologies Corporation from 2000 to 2003. Mr. Kling also served as President of Dielectric Communications, a division of General Signal Corporation, which was purchased by SPX Corporation, from 1997 to 1999. He is also a director of Eastman Chemical Company, a manufacturer of chemicals, fibers and plastics.

James O. Rollans, age 64, has served as a director since 1997. He serves as the Chairman of the Audit Committee and as a member of the Corporate Governance and Nominating Committee. He is an independent Corporate Director and Corporate Financial Advisor. Mr. Rollans was President and Chief Executive Officer of Fluor Signature Services, a subsidiary of Fluor Corporation, a major engineering, procurement and construction firm, from 1999 to 2001. He served as Senior Vice President of Fluor Corporation from 1992 to 1999, as its Chief Financial Officer from 1998 to 1999 and from 1992 to 1994, as its Chief Administrative Officer from 1994 to 1998 and as its Vice President of Corporate Communications from 1982 to 1992. Mr. Rollans is also a director of Encore Credit Corporation, a mortgage finance company and a director of Advanced Medical Optics, Inc., a developer and manufacturer of ophthalmic surgical and contact lens care products.

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Directors Serving a Term Expiring at the 2008 Annual Meeting of Shareholders

Michael F. Johnston, age 59, has served as a director since 1997. He serves as Chairman of the Finance Committee and as a member of the Corporate Governance and Nominating Committee. Mr. Johnston is the Chief Executive Officer and Chairman of the Board of Visteon Corporation (Visteon), an automotive components supplier and has served as Visteon's President, Chief Executive Officer and Chief Operating Officer at various times since 2000. Before joining Visteon, Mr. Johnston was employed by Johnson Controls, Inc., a company serving the automotive and building services industry, as President of North America/Asia Pacific, Automotive Systems Group, from 1999 to 2000, President of Americas Automotive Group from 1997 to 1999 and in other senior management positions since 1991. He is also a director of Visteon and a director of Whirlpool Corporation, an appliance manufacturer.

Charles M. Rampacek, age 63, has served as a director since 1998. He serves as the Chairman of the Corporate Governance and Nominating Committee and as a member of the Audit Committee. Mr. Rampacek is currently a business and management consultant in the energy industry. Mr. Rampacek served as the Chairman of the Board, President and Chief Executive Officer of Probex Corporation (Probex), an energy technology company providing proprietary oil recovery services, from 2000 to 2003. From 1996 to 2000, Mr. Rampacek served as President and Chief Executive Officer of Lyondell-Citgo Refining, L.P., a manufacturer of petroleum products. From 1982 to 1995, he held various executive positions with Tenneco Inc. and its energy related subsidiaries, including President of Tenneco Gas Transportation Company, Executive Vice President of Tenneco Gas Operations and Senior Vice President of Refining. In 2005, two complaints seeking recovery of certain alleged losses were filed against former officers and directors of Probex, including Mr. Rampacek, as a result of the bankruptcy of Probex in 2003. These complaints were defended under Probex's director and officer insurance by AIG and settlement was reached and paid by AIG with bankruptcy court approval in the first half of 2006. An additional complaint was filed in 2005 against noteholders of certain Probex debt, of which Mr. Rampacek was one. A settlement of \$2,000 was reached and similarly approved in the first half of 2006. Mr. Rampacek is also a member of the Board of Directors of Enterprise Products GP, LLC and serves on its Audit, Conflicts and Governance Committee.

Kevin E. Sheehan, age 61, has served as a director since 1990. He serves as non-executive Chairman of the Board of Directors and also serves as a member of the Finance Committee. He also serves as an alternate director of all other committees for any committee member not in attendance at a committee meeting. He served as the Company's Interim Chairman, President and Chief Executive Officer from April 2005 to August 2005. He is a partner in Cambridge Ventures, a venture capital firm focused on investments in early stage growth companies. He is on the Board of two private companies, neither connected to Cambridge Ventures, Contour Hardening and CIK Enterprises, where he also serves as Board Chairman. Prior to joining Cambridge Ventures, he was Managing Director of CID Capital for 12 years. He is also a director of Tecumseh Corporation, a manufacturer of compressors, gasoline engines and power train components. Before joining CID Capital in 1994, Mr. Sheehan was employed by Cummins Engine Company, a manufacturer of diesel engines and related components, for 22 years. He served at Cummins Engine Company as Vice President, Components Group, from 1986 to 1993, Vice President, Worldwide Parts and Service from 1983 to 1986 and Vice President, Computer Systems and Telecommunications from 1980 to 1983.

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Directors Serving a Term Expiring at the 2007 Annual Meeting of Shareholders

Hugh K. Coble, age 72, has served as a director since 1994 and serves as a member of the Organization and Compensation Committee. He is Vice Chairman, Emeritus, of Fluor Corporation, a major engineering, procurement and construction firm. Mr. Coble was a director of Fluor Corporation from 1984 and Vice Chairman from 1994 until his retirement in 1997. He joined Fluor Corporation in 1966 and was Group President of Fluor Daniel, Inc., a subsidiary of Fluor Corporation, from 1986 to 1994.

George T. Haymaker, Jr., age 69, has served as a director since 1997. He serves as a member of the Organization and Compensation Committee. Mr. Haymaker has been non-executive Chairman of the Board of Safelite Auto Glass, a provider of automobile replacement glass, since 2000. Mr. Haymaker was non-executive Chairman of the Board of Kaiser Aluminum Corporation, a company that is now principally a producer of semi-fabricated aluminum products, from 2001 to 2006, Chairman of the Board from 1994 until 2001 (non-executive Chairman after January 2000) and its Chief Executive Officer from 1994 to 1999. Before joining Kaiser Aluminum in 1993 as its President and Chief Operating Officer, Mr. Haymaker worked with a private partner in the acquisition and redirection of several metal fabricating companies. He was Executive Vice President of Alumax, Inc. from 1984 to 1986 and was Vice President, International Operations for Alcoa, Inc. from 1982 to 1984. Mr. Haymaker is also a director of CII Carbon, L.L.C., a supplier of calcined coke for aluminum smelters, a director of Mid-America Holdings, Ltd., an aluminum extruder, a director of 360 Networks Corporation, a provider of telecommunication services, a lead director and member of the Audit Committee of the Board of Hayes Lemmerz International, Inc., a global supplier of automotive and commercial wheels, brakes and other auto suspension components and a director and Chairman of the Compensation Committee of the Board of SCP Pool Corp., a distributor of swimming pool and related products.

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MEETINGS AND COMMITTEES OF THE BOARD

Meetings of the Board

The Board held 5 regular meetings and 8 special meetings in 2006. Executive sessions of non-management directors are normally held at each regular Board meeting. Any non-management director may request additional executive sessions to be scheduled. Shareholders may communicate with the Company's non-management directors by following the instructions set forth in "Shareholder Communications with the Board" below.

Board members customarily have attended the Company's annual meetings of shareholders. Each Board member attended the Company's 2005 and 2006 annual meetings of shareholders. In 2006, each director attended over 75% of the meetings of the Board held during the period for which he or she has been a director and the meetings of the Board committees on which he or she served.

Non-Executive Chairman of the Board

Kevin E. Sheehan, as non-executive Chairman of the Board, presides over meetings of the Board, including executive sessions of the Board where only non-employee directors are present. He approves the agendas for Board meetings in advance. He also serves as a member of the Finance Committee and as an alternate member of all other Board committees. Mr. Sheehan generally attends all committee meetings, where possible.

Committees of the Board

The Board maintains an Audit Committee, a Finance Committee, a Corporate Governance and Nominating Committee and an Organization and Compensation Committee. Only independent directors are eligible to serve on Board committees.

Each committee is governed by a written charter. The charters of the Audit Committee, Finance Committee, Corporate Governance and Nominating Committee and Organization and Compensation Committee are available on the Company's website at www.flowserve.com under the "Investor Relations" Governance caption. These documents are also available in print to any shareholder who submits a written request to Zac Nagle, Vice President, Investor Relations, Flowserve Corporation, 5215 N. O'Connor Blvd., Suite 2300, Irving, Texas 75039.

Audit Committee

The Audit Committee is composed of three directors, Charles M. Rampacek, James O. Rollans (Chairman) and William C. Rusnack. The Board has determined that Mr. Rollans, former Chief Financial Officer of Fluor Corporation, is a qualified audit committee financial expert under the Securities and Exchange Commission (the "SEC") rules and has accounting or related financial management expertise for purposes of the NYSE listing requirements. The Board also determined that all members of the Audit Committee are financially literate, within the meaning of the NYSE corporate governance listing standards and meet the independence standards set forth in the SEC rules and the NYSE corporate governance listing standards.

The Audit Committee directly engages the Company's independent auditors, preapproves the scope of the annual external audit and preapproves all audit and non-audit services to be provided by the independent auditor. The Audit Committee further approves and directly reviews the results of the internal audit plan. The Audit Committee also meets with management and the independent auditors to review the quality and accuracy of the annual and quarterly financial statements and considers the reports and recommendations of independent internal and external auditors

pertaining to audit results, accounting practices, policies and procedures and overall internal controls.

The Audit Committee meets regularly with the external and internal auditors in executive session to discuss their reports on a confidential basis. In addition, the Audit Committee prepares and issues

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the Report of the Audit Committee located on page 57 of this proxy statement. The Audit Committee met 12 times in 2006.

Finance Committee

The current members of the Finance Committee are Diane C. Harris, Michael F. Johnston (Chairman) and Kevin E. Sheehan. The Board determined that all members of the Finance Committee meet the independence standards set forth in the NYSE corporate governance listing standards.

The Finance Committee advises the Board on all corporate financing and related treasury matters regarding capital structure and major corporate transactions. The Finance Committee monitors corporate risk management programs. The Finance Committee approves major capital expenditures made by the Company. The Finance Committee also advises the Board on the Company's pension fund performance. The Finance Committee met 6 times in 2006.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee (Corporate Governance Committee) is composed of four directors, Christopher A. Bartlett, Michael F. Johnston, Charles M. Rampacek (Chairman) and James O. Rollans. The Board determined that all members of the Corporate Governance Committee meet the independence standards set forth in the SEC rules and the NYSE corporate governance listing standards.

The Corporate Governance Committee is responsible for making recommendations to the Board for the positions of Chairman of the Board, President and Chief Executive Officer and candidates for director. The Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominee director candidates. The Corporate Governance Committee assesses the appropriateness of the Board's size and whether any vacancies on the Board are expected due to retirement or other factors. In the event that vacancies are anticipated, or otherwise arise, the Corporate Governance Committee considers various potential candidates for director who may come to the attention of the Corporate Governance Committee through current Board members, professional search firms, shareholders or other persons. The Corporate Governance Committee generally retains a national executive recruiting firm to research, screen and contact potential candidates regarding their interest in serving on the Board, although the Corporate Governance Committee may also use less formal recruiting methods.

All identified candidates, including shareholder-proposed nominees, as applicable, are evaluated by the Corporate Governance Committee using generally the same methods and criteria, although those methods and criteria may vary from time to time depending on the Corporate Governance Committee's assessment of the Company's needs and situation.

The Company's director nomination process for nominating shareholders and our policy regarding the consideration of such nominations is discussed under "Shareholder Nominations for Director" below.

The Board's Corporate Governance Guidelines contain Board membership criteria. Generally, the Board believes that its members should have the highest professional and personal ethics and a diversity of backgrounds. All existing and prospective new members should have a broad strategic view, possess a global business perspective and demonstrate relevant and successful career experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to responsibly perform all director duties. Each director must represent the interests of all shareholders.

The Corporate Governance Committee is also responsible for preparing materials for the annual Chief Executive Officer's performance review

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conducted by the Board. Further, the Corporate Governance Committee reviews and recommends, as deemed appropriate, changes to corporate governance matters consistent with SEC rules and the NYSE corporate governance listing standards. The Corporate Governance Committee met 6 times in 2006.

Organization and Compensation Committee

The Organization and Compensation Committee (Compensation Committee) is composed of four directors, Christopher A. Bartlett (Chairman), Hugh K. Coble, Roger L. Fix and George T. Haymaker, Jr. The Board determined that all members of the Compensation Committee meet the independence standards set forth in the SEC rules and the NYSE corporate governance listing standards.

The Compensation Committee is responsible for establishing executive compensation for officers, including the Chief Executive Officer and key management personnel. Decisions regarding compensation are made by the Compensation Committee in a manner that is intended to be internally equitable, externally competitive and an incentive for effective performance in the best interests of shareholders. The Compensation Committee administers the Company's stock option plans, restricted stock plans and incentive compensation plans for key employees, including considering the recommendations of the Chief Executive Officer in granting awards to other Named Executives under those plans. The Compensation Committee may, under certain circumstances, delegate routine or ministerial activities under these plans to management. The Compensation Committee also reviews the recommendations of the Chief Executive Officer and the Vice President-Human Resources regarding adjustment to the Company's executive compensation programs. The Compensation Committee has retained and regularly meets with its directly retained independent executive compensation consultant, Lyons, Benenson & Co., who assists the Compensation Committee in evaluating how well the Company's compensation programs adhere to the philosophies and principles stated below under Compensation Discussion and Analysis. The Compensation Committee is also responsible for reviewing the management succession plan and for recommending changes in director compensation to the Board. The Compensation Committee periodically reviews the organizational design, management development plans and managerial capabilities of the Company. The Compensation Committee also prepares and issues the Report of the Compensation Committee as presented on page 32 of this proxy statement. The Compensation Committee met 8 times in 2006.

CORPORATE GOVERNANCE

The Corporate Governance Guidelines contain a formal set of qualification standards with respect to the determination of director independence, which either meet or exceed the independence requirements of the NYSE. Under the Corporate Governance Guidelines, only those directors who have no material relationship with the Company (except as a director) are deemed independent. The Corporate Governance Guidelines specify the criteria by which the independence of our directors will be determined, including strict guidelines for directors and their immediate families with respect to past employment or affiliation with the Company or its independent registered public accounting firm. See Corporate Governance Guidelines below for more information on these guidelines.

The Board has determined that, other than Lewis M. Kling, each member of the Board, including all persons nominated for election or re-election meet the independence standards set forth in the applicable SEC rules and the NYSE corporate governance listing standards. Mr. Kling is not considered independent, as he serves as President and Chief Executive Officer of the Company.

Corporate Governance Guidelines

In addition to the corporate governance duties noted for each above, the Board monitors and

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updates, as deemed appropriate, internal guidelines designed to promote effective oversight of the Company's material business affairs. The guidelines set parameters for the director recruiting process and the composition of Board committees. They also determine the formal process for Board review and evaluation of the Chief Executive Officer, individual directors and Board performance. The guidelines also establish targets for director stock ownership.

These guidelines require a director to offer his or her resignation when such director's principal occupation changes during a term of office. Under such circumstances, the Corporate Governance Committee will review whether it is appropriate for the director to continue serving on the Board. Finally, these guidelines establish maximum term and age limits for directors, which may be waived by the Board if deemed appropriate.

The Board's Corporate Governance Guidelines, as well as the Company's Code of Ethics and Code of Business Conduct, are available on the Company's website at www.flowserve.com under the Investor Relations Governance caption. These documents are also available in print to any shareholder who submits a written request to Zac Nagle, Vice President, Investor Relations, Flowserve Corporation, 5215 N. O Connor Blvd., Suite 2300, Irving, Texas 75039.

Shareholder Nominations for Director

In accordance with the Company's By-Laws, if you are a shareholder entitled to vote at an annual meeting, you may nominate one or more persons for election as a director of the Company at that meeting. You may do this by sending a written notice to the Assistant Corporate Secretary, Flowserve Corporation, 5215 N. O Connor Blvd., Suite 2300, Irving, Texas 75039. The Company must receive your notice not less than 50 days before the annual meeting date (provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, the notice by the shareholder in order to be considered timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting is mailed or such public disclosure of the date of the annual meeting is made). The shareholder's notice must set forth:

(a) as to each shareholder-proposed nominee (i) the name, age, business address and residence address of such person, (ii) the principal occupation of such person, (iii) the class and number of any shares of the Company or any subsidiary of the Company which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to the rules and regulations promulgated under the Exchange Act; and

(b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of Company shares beneficially owned by such shareholder.

After submission, in accordance with the Company's policy on considering director nominations by shareholders, the notice will be referred to the Corporate Governance Committee for further consideration. The Corporate Governance Committee may require any shareholder-proposed nominee to furnish such other information as may reasonably be required to determine the eligibility of such proposed nominee or to assist in evaluating the proposed nominee. The Corporate Governance Committee may require the submission of a fully completed and signed Questionnaire for Directors and Executive Officers on the Company's standard form and a written consent by the shareholder-proposed nominee to serve as a director if so elected. Shareholder nominations that comply with these procedures and that meet the criteria outlined above will receive the same consideration that the Corporate Governance Committee's other proposed nominees receive.

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Shareholder Communications with the Board

Shareholders and other interested parties may communicate with the Board by writing to Kevin E. Sheehan, Chairman of the Board, c/o Flowserve's Assistant Corporate Secretary, Flowserve Corporation, 5215 N. O'Connor Blvd., Suite 2300, Irving, Texas 75039. All such communications are delivered to Mr. Sheehan.

Compensation Committee Interlocks and Insider Participation

During 2006, the members of the Compensation Committee were Christopher A. Bartlett, Hugh H. Coble, Roger L. Fix, (who joined the Board and this committee in April 2006,) and George T. Haymaker, Jr. None of the members of the Compensation Committee was at any time during 2006 an officer or employee of the Company. None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or Compensation Committee.

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EXECUTIVE OFFICERS AND OTHER CORPORATE OFFICERS

The following information presents names, ages, positions and background summaries of the Company's executive officers and certain other corporate officers.

Andrew J. Beall, age 50, has served as Senior Vice President since December 2006 and President of Flow Solutions Division since 2003. He served as Vice President from 2003 to December 2006. From 1994 to 2003, Mr. Beall served in a number of key United States and international management positions with the Company including as Vice President of Flowserve Pump Division, Flow Solutions Division and Flow Control Division in Latin America from 1999 to 2003.

Deborah K. Bethune, age 48, has served as Vice President, Tax since 2004. Prior to that, she served with Electronic Data Systems Corporation for 17 years, where she held several tax management positions, most recently as the Director of International Taxes for the Americas and Asia Pacific regions.

Mark A. Blinn, age 45, has served as Senior Vice President since December 2006 and Chief Financial Officer since 2004. He served as Vice President from 2004 to December 2006. Prior to that, he served as Chief Financial Officer of FedEx Kinko's Office and Print Services, Inc. from 2003 to 2004 and as Vice President and Treasurer of Kinko's, Inc. from 2002 to 2003. Mr. Blinn also served as Vice President and Chief Accounting Officer of Centex Corporation from 2000 to 2002 and as Managing Director of Corporate Finance since 1999.

Mark D. Dailey, age 48, has served as Senior Vice President, Human Resources since November 2006 and Chief Compliance Officer since May 2005. He served as Vice President, Supply Chain and Continuous Improvement, from 1999 until 2005. Mr. Dailey was Vice President, Supply Chain and held other supply chain management positions from 1992 to 1999 for the North American Power Tools Division of The Black and Decker Corporation.

Paul W. Fehlman, age 43, has served as Vice President and Corporate Treasurer since 2005. He served as Director of Financial Services and Assistant Treasurer from 2000 to 2005.

Thomas E. Ferguson, age 50, has served as Senior Vice President since December 2006 and as President of Flowserve Pump Division since 2003. He served as Vice President from 2003 to December 2006. He was President of Flow Solutions Division from 2000 to 2002, Vice President and General Manager of Flow Solutions Division North America from 1999 to 2000 and Vice President of Marketing and Technology for Flow Solutions Division from 1997 to 1999.

Richard J. Guiltinan, Jr., age 53, has served as Vice President, Controller and Chief Accounting Officer since 2004. Prior to that, he served as a consultant to Chevron on three multinational restructuring and merger integration projects in 2003 and 2002. From 1985 to 2001, Mr. Guiltinan served in accounting, financial management and operating positions at Caltex Corporation, a joint venture of Chevron and Texaco, including as Chief Financial Officer from 2000 to 2001. He is also a director of North American Technologies Group, Inc., (NATK) a company that manufactures and markets composite railroad crossties to the railroad industry. He serves as Chairman of the Audit Committee of NATK.

Linda P. Jojo, age 41, has served as Senior Vice President and Chief Information Officer since December 2006. She served as Vice President from June 2004 to December 2006. Prior to that, she served as Chief Information Officer of GE Silicones Division of General Electric Corporation from 2000 to 2004 and held other management positions at General Electric Corporation from 1991 to 2000.

